A Report to the Montana Legislature

Financial-Compliance Audit

Public Employees' Retirement Board

For the Two Fiscal Years Ended June 30, 2014

March 2015

Legislative Audit Division

14-08A

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Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
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March 2015

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Public Employees' Retirement Board (PERB), a component unit of the state of Montana, for the fiscal year ended June 30, 2014. This report does not contain any recommendations for PERB.

Included in the report is our Independent Auditor's Report on page A-1. We issued an unmodified opinion on the Statement of Fiduciary Net Position–Pension Trust Funds and the Statement of Changes in Fiduciary Net Position–Pension Trust Funds, and the accompanying notes to the financial statements, prepared by PERB's personnel. Our opinion indicates the reader can rely on the fairness of the information presented.

Also included in this report, prepared by PERB personnel, are the Management's Discussion and Analysis and several other schedules required by the Governmental Accounting Standards Board to be presented in conjunction with the financial statements.

We thank the executive director and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Public Employees' Retirement Board B-1

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Appointed and Administrative Officials

			Term Expires
Public Employees' Retirement Board	Scott Moore, President	Miles City	3/31/15
	Mike McGinley, Vice President	Dillon	3/31/18
	Warren Dupuis	Helena	3/31/19
	Maggie Peterson	Anaconda	3/31/19
	Melissa Strecker	Missoula	3/31/17
	Timm Twardoski	Helena	3/31/16
	Sheena Wilson	Helena	3/31/18

Administrative Officials

Dore Schwinden, Executive Director

Patricia Davis, Member Services Bureau Chief

Barbara Quinn, Fiscal Services Bureau Chief

Melanie Symons, Chief Legal Counsel

Hollie Koehler, Internal Auditor

Angela Riley, Information Systems Bureau Chief (effective December 2014)

June Dosier, Information Systems Bureau Chief (through December 2014)

For additional information concerning the Montana Public Employees' Retirement Board, contact:

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Montana Legislative Audit Division

Financial-Compliance Audit
Public Employees' Retirement Board
For the Two Fiscal Years Ended June 30, 2014

March 2015 14-08A Report Summary

The Public Employees' Retirement Board administers nine defined benefit plans and two defined contribution plans. Three of the defined benefit plans; Sheriffs' Retirement, Game Wardens' and Peace Officers', and Highway Patrol Officers' were not actuarially sound at June 30, 2014. The Montana Constitution requires these public employee retirement systems be funded on an actuarially sound basis.

Context

The Public Employees' Retirement Board (PERB) is an independent, seven-member board, appointed by the Governor to administer 11 retirement plans consisting of nine defined benefit plans and two defined contribution plans accounted for in pension trust funds. The defined benefit plans include the Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Public Employees' Retirement System Defined Contribution Disability Other Post-Employment Benefit, Judges' Retirement System, Highway Patrol Officers' Retirement System (HPORS), Sheriffs' Retirement System, Game Wardens' and Peace Officers' Retirement System, Municipal Police Officers' Retirement System, Firefighters' Unified Retirement System, and the Volunteer Firefighters' Compensation Act. The two defined contribution plans are the Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the Section 457 Deferred Compensation Plan.

The Statement of Fiduciary Net Position-Pension Trust Funds reports approximately $6.255 billion in Net Position (assets net of liabilities) for the combined defined benefit plans and approximately $562.9 million in Net Position for the combined defined contribution plans. Liabilities reported on the financial statements do not include any future obligation for benefit payments to retirees. On the Statement of Changes in Fiduciary Net Position-Pension Trust Fund, total Net Position increased for defined benefit plans by approximately $837.8 million and Net Position increased by approximately $60.7 million for the defined contribution plans.

The fiscal year 2013 Legislature passed legislation increasing funding for several of the plans including: increases to statutory contribution rates for members and employers for the PERS-DBRP, PERS-DCRP, and HPORS. In addition, coal severance tax funds credited to the general fund are now statutorily appropriated to PERS-DBRP and up to $21 million in coal severance tax interest earnings. The total amount received in fiscal year 2014 related to coal severance tax and interest was $33.7 million. Additionally, legislation was enacted that reduced the guaranteed annual benefits for PERS-DBRP all members, including retirees to a maximum of 1.5 percent annually. This legislation is being contested and in fiscal year 2014 the reduction was not enacted because of a preliminary injunction.

(continued on back)

Results

Effective fiscal year 2014, the PERB implemented a new accounting standard that changed retirement system financial reporting requirements for defined benefit retirement systems. The new requirements include information related to pension liability, net pension liability, investments, and contributions, and are included in the notes to the financial statements as well as in the required supplementary information. In response to the new requirements, we also tested important employee data used by the system's actuary to estimate total pension liability.

Our audit work included sampling techniques for contributions and benefits, and testing key controls. Also, we performed analysis of financial data and review of the financial statements and notes to determine if they are adequately supported by the underlying accounting records and the actuarial valuations.

This report does not include recommendations to PERB and we issued an unmodified opinion on PERB's financial statements for fiscal year 2014. This means the reader may rely on the fairness of the information presented in the financial statements.

Chapter I – Introduction

Audit Scope

We performed a financial-compliance audit of the Public Employees' Retirement Board (PERB) for the fiscal year ended June 30, 2014. The objectives of our audit were to:

1. Determine whether the PERB's financial statements present fairly the PERB's fiduciary net position and changes in fiduciary net position for the fiscal year ended June 30, 2014.
2. Determine the PERB's compliance with selected applicable laws.
3. Obtain an understanding of the PERB's internal control systems to the extent necessary to support our audit of the PERB's financial statements, and if appropriate, make recommendations for improvement in internal controls.
4. Determine the status of the prior audit recommendation.

Effective fiscal year 2014, PERB implemented a new financial reporting requirement applicable to the defined benefit systems. This new information affects the notes to the financial statements as well as in required supplementary information. This information includes the total pension liability and the net pension liability as well as additional investment and contributions data. Below is a table that shows the Total Pension Liability and Net Pension Liability/(Asset) for the systems at June 30, 2014.

Table 1

Total Pension Liability and Net Pension Liability/(Asset) by Defined Benefit System (in thousands)

System	*Employers' Pension Liability	**Employers' Net Pension Liability/ (Asset)
Public Employees'	$6,188,781	$1,246,011
Judges'	$51,632	$(32,591)
Highway Patrol Officers'	$183,133	$57,123
Sheriffs'	$326,272	$41,617
Game Wardens' and Peace Officers'	$153,864	$15,121
Municipal Police Officers'	$476,322	$157,136
Firefighters' Unified	$419,173	$97,617
Volunteer Firefighters' Compensation Act	$38,359	$5,089

Source: Compiled by Legislative Audit Division from PERB Actuarial Information.

*Total pension liability is the actuarial present value of projected benefit payments that is attributable to past periods of member services.

**The net pension liability is a new measure of the extent to which the net pension liability is covered by the fiduciary net position of the pension plan.

Our audit work over the systems administered by PERB included sampling techniques for testing contributions and benefits, as well as testing compliance with state laws and tests of controls. Additional audit techniques included analysis of financial data and review of the financial statements and note disclosures to determine if they were adequately supported by the underlying accounting records and the actuarial valuations. In response to the new required disclosures, we tested important employee data, such as birthdate, gender, hire date, and salary for retirement system members. This information is used by the system's actuary to estimate total pension liability. We tested this primarily through sampling techniques at 45 participating employers and at PERB.

Background

This is our financial-compliance audit required by §5-13-304, MCA. The PERB administers 11 retirement plans and the related member education funds. The PERB is a component unit that is a legally separate organization for which the state of Montana is financially accountable. The executive director and his staff provide daily administrative functions as directed by the board. The governor appoints the seven board members to five-year terms.

The PERB manages the activities of the following defined benefit pension plans:

- Public Employees' Retirement System – Defined Benefit Retirement Plan (PERS–DBRP)
- Public Employees' Retirement System Defined Contribution Disability Other Post-Employment Benefit (PERS-DCRP Disability OPEB)
- Judges' Retirement System (JRS)
- Highway Patrol Officers' Retirement System (HPORS)
- Sheriffs' Retirement System (SRS)
- Game Wardens' and Peace Officers' Retirement System (GWPORS)
- Municipal Police Officers' Retirement System (MPORS)
- Firefighters' Unified Retirement System (FURS)
- Volunteer Firefighters' Compensation Act (VFCA)

All of these funds, except for the PERS-DCRP Disability OPEB, provide pension, disability, and death benefits to eligible members and survivors. The PERS-DCRP Disability OPEB only provides disability benefits. With one exception, the monthly benefits are based on eligibility, years of service, and salary levels while employed. The Volunteer Firefighters' Compensation Act monthly benefits are based only on eligibility and years of service.

The PERB also manages two defined contribution plans as described below:

- The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-DCRP). This plan provides retirement, disability and death benefits for plan members. The plan was available to all active PERS members effective July 1, 2002.
- The Deferred Compensation (457) Plan. This plan is a voluntary supplemental retirement savings plan for employees who choose to participate and are employed by the state, the Montana University System, or political subdivisions that contract with the plan. Members contribute a portion of their compensation to the plan.

The 2013 Legislature enacted legislation affecting plan and/or member contributions for PERS-DBRP and PERS-DCRP, and HPORS. The changes are summarized below.

For both PERS-DBRP and PERS-DCRP, member and employer contributions increased effective July 1, 2013. In addition, coal severance tax funds credited to the General Fund are now statutorily appropriated to the PERS-DBRP and up to $21 million in coal severance tax fund interest earnings. The total amount received in fiscal year 2014 related to coal severance tax and interest was $33.7 million.

In addition, legislation was enacted that reduced the guaranteed annual benefit adjustment (GABA) to a maximum 1.5 percent per year for all members, including retirees. However, a lawsuit was filed and the decrease in GABA was not implemented in fiscal year 2014 based on a preliminary injunction blocking implementation until the suit is resolved.

For HPORS, effective July 1, 2013, member and state contributions increased by 1 percent and 2 percent, respectively. In addition, significant design changes were made related to GABA and the vesting period.

Prior Audit Recommendation

The financial audit for the fiscal year ended June 30, 2013, contained one recommendation for the PERB to continue working with the legislature to ensure all defined benefit pension plans are actuarially sound. As of June 30, 2014, the same three defined benefit pension plans, SRS, GWPORS, and HPORS, continue to be actuarially unsound. The unfunded liability for SRS and GWPORS does not amortize. The amortization period for HPORS is 30.3 years. Article VIII, Section 15, of the Montana Constitution requires the public retirement systems be funded on an actuarially sound basis. A retirement system is considered actuarially sound when the amortization period of the unfunded liability does not exceed 30 years based on §19-2-409, MCA.

The prior report was issued in March 2014. The Montana Legislature commenced their biennial session in January of 2015, so no legislative changes have yet to be enacted to address the three systems that are not actuarially sound.

In response to the noncompliance issue regarding the three systems not being actuarial sound, PERB personnel indicated the following:

- The GWPORS is anticipated to be actuarially sound by about the fiscal year 2023 valuation without any changes to the plan provisions and if all assumptions are met.
- The SRS plan's position has improved based on positive investment returns.
- The HPORS is projected to be funded within 30 years by the fiscal year 2015 actuarial valuation based on previous legislation.

We will continue to evaluate the status of this recommendation and report on compliance with the Montana Constitution's mandate of actuarial soundness.

Independent Auditor’s Report and Public Employees’ Retirement Board Financial Statements

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction
We have audited the accompanying Statement of Fiduciary Net Position-Pension Trust Funds of the Public Employees' Retirement Board (board), a component unit of the state of Montana, as of June 30, 2014, and the related Statement of Changes in Fiduciary Net Position-Pension Trust Funds for the fiscal year ended June 30, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the board as of June 30, 2014, and the changes in net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note C, the Game Wardens' and Peace Officers,' Sheriffs,' and Highway Patrol Officers' retirement systems were not actuarially sound at June 30, 2014, as required by the Montana Constitution. The amortization period for the Unfunded Actuarial Accrued Liability is 30.3 years for the Highway Patrol Officers' Retirement System. The Game Wardens' and Peace officers' Retirement system and Sheriffs' Retirement System do not amortize. The maximum allowable amortization period is 30 years, as defined by state law. Our opinion is not modified with respect to this matter.

As discussed in Note A-1 to the financial statements, the system implemented Governmental Accounting Standard Board Statement Number 67, Financial Reporting for Pension Plans, in fiscal year 2014. Our opinion is not modified with respect to this matter.

As disclosed in Note C, beginning in fiscal year 2014 the PERS-DBRP received $33.7 million in additional contributions from coal severance taxes credited to the General Fund and coal severance tax interest earnings. On the Statement of Changes in Fiduciary Net Position-Pension Trust Funds, the $33.7 million is classified as miscellaneous revenue. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis, and the Schedule of Changes in Multiple-Employer Plans Net Pension Liability, Schedule of Changes in Single-Employer Plans Net Pension Liability, Schedule of Net Pension Liability for Multiple-Employer Plans, Schedule of Net Pension Liability for Single-Employer Plans, Schedule of Employer and NonEmployer (state) Contributions for Cost-Sharing Multiple-Employer Plans, Schedule of Employer and NonEmployer (state) Contributions for Single-Employer Plans, Schedule of Investment Returns for Multiple-Employer Plans, Schedule of Investment Returns for Single-Employer Plans, Schedule of Funding Progress for PERS-DCRP Disability OPEB, Schedule of Employer Contributions & Other Contributing Entities, and Schedule of Funding Progress for OPEB be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an

appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Administrative Expenses, Schedule of Investment Expenses, Schedule of Professional/Consultant Fees for the fiscal year ended June 30, 2014; the Detail of Fiduciary Net Position (PERS-DBRP and PERS-DBEd) and the Detail of Fiduciary Net Position (PERS-DCRP, PERS-DCEd and PERS-DC Disability) as of June 30, 2014; and the related Detail of Changes in Fiduciary Net Position (PERS-DBRP and PERS-DBEd), and the Detail of Changes in Fiduciary Net Position (PERS-DCRP, PERS-DCEd and PERS-DC Disability) for the fiscal year ended June 30, 2014, are supplementary information presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 9, 2015

Public Employees' Retirement Board

A Component Unit of the State of Montana

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Montana Public Employees' Retirement Board's (PERB) financial presentation and performance of the plans administered by the PERB for the year ending June 30, 2014. Throughout this discussion and analysis units of measure (i.e., billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

Financial Highlights

- *The PERB's combined total net position of the defined benefit plans increased by $837.7 million or 15.5% in fiscal year 2014. The increase was primarily due to the positive investment income in each of the plans.*

- *The PERB's defined contribution plans combined total net position increased by $60.7 million or 12.1% in fiscal year 2014. The total increase in net position was primarily due to the increase of investment income in the PERS-defined contribution retirement plan and the deferred compensation plan.*

- *Revenues (additions to plan net position) for the PERB's defined benefit plans for fiscal year 2014 was $1.2 billion, which includes member and employer contributions of $302.9 million and net investment income of $921.0 million.*

- *Revenues (additions to plan net position) for the PERB's defined contribution plans for fiscal year 2014 was $91.3 million, which includes member and employer contributions of $37.8 million and net investment income of $53.5 million.*

- *Expenses (deductions to plan net position) for the PERB's defined benefit plans increased from $361.7 million in fiscal year 2013 to $386.1 million in fiscal year 2014 or 6.7%. The increase in 2014 is primarily due to an increase in benefits.*

- *Expenses (deductions to plan net position) for the PERB's defined contribution plans increased from $25.8 million in fiscal year 2013 to $30.6 million in fiscal year 2014 or 18.7%. The increase in expenses is primarily due to an increase in distributions.*

- *The PERB's defined benefit plans' funding objectives are to meet long-term benefit obligations. As of June 30, 2014, the date of the latest actuarial valuation, four of the plans can amortize the Unfunded Actuarial Liability within 30 years or less. They are the Public Employees' Retirement System (PERS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and the Volunteer Firefighters' Compensation Act (VFCA). The Highway Patrol Officers' Retirement System is able to amortize the Unfunded Actuarial Liability in 30.3 years. The plans that are not able to amortize the Unfunded Actuarial Liability are the Sheriffs' Retirement System (SRS), the Game*

Wardens' and Peace Officers' Retirement System (GWPORS), and the PERS-DCRP Disability OPEB (DC Disability OPEB). The Judges' Retirement System (JRS) has an actuarial surplus. This means there are more assets than liabilities in the plan. As a whole the plans are actuarially funded at an average of 84%, including JRS' surplus. It is important to understand that this measure reflects the Actuarial Value of Assets for the defined benefit plans, which are currently less than the actual fair value published in the financial statements. Investment earnings are critical to the defined benefit plans. The actuary uses a four-year smoothing method for determining the Actuarial Value of Assets. This method is used to reduce the impact of market volatility. Due to smoothing gains in 2011, 2013 and 2014 and losses in 2012, return on actuarial value ranged from 11% to 12% for all systems, creating actuarial experience gains. These ranges were significantly greater than the actuarial assumed rate of return on investments of 7.75%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the PERB's financial reporting which is comprised of the following components:

(1) Financial Statements
(2) Notes to the Financial Statements
(3) Required Supplementary Information
(4) Other Supplementary Schedules

Collectively, this information presents the combined net position restricted for pension benefits for each of the plans administered by the PERB as of June 30, 2014. This financial information also summarizes the combined changes in net position restricted for pension benefits for the year then ended. The information in each of these components is briefly summarized as follows:

(1) Financial Statements for the fiscal year ended June 30, 2014, are presented for the fiduciary funds administered by the PERB. Fiduciary funds are used to pay for pension benefits and expenses. The fiduciary funds are comprised of 11 pension (and other employee benefit) trust funds that consist of nine defined benefit and two defined contribution plans.

- The Statement of Fiduciary Net Position, is presented for the pension trust funds at June 30, 2014. These financial statements reflect the resources available to pay benefits to retirees and beneficiaries at the end of the fiscal year reported.

- The Statement of Changes in Fiduciary Net Position, is presented for the pension trust funds for the year ended June 30, 2014. These financial statements reflect the changes in the resources available to pay benefits to retirees and beneficiaries at the end of the fiscal year reported.

(2) The Notes to the Financial Statements provide additional information that is essential for a full understanding of the data provided in the financial statements. The information in the Notes to the Financial Statements is described as follows:

- Note A provides a summary of significant accounting policies including: the basis of accounting; capital assets and equipment used in operations including MPERAtiv,

the new system project; operating lease; Governmental Accounting Standards Board (GASB) Statement No. 67 Disclosures regarding Financial Reporting for Pension Plans; GASB Statement No. 45 Disclosures regarding Other Post-Employment Benefits (OPEB); and summaries of the method to value investments and other significant accounting policies or explanations.

- Note B provides information about litigation.

- Note C describes the membership and descriptions of each of the plans administered by the PERB. Summaries of benefits and contribution information are also provided.

(3) The Required Supplementary Information consists of multiple-employer and single employer plan schedules of changes of employers' net pension liability, employers' net pension liability, employer contributions, and the money-weighted rate of investment returns of the defined benefit pension systems administered by the PERB. As well as related notes concerning actuarial information of the defined benefit pension plans and Other Post-Employment Benefits (OPEB) and the related notes to the OPEB plans.

(4) Other Supplementary Schedules include schedules of administrative expenses, investment expenses, and professional/consultant fees.

Financial Analysis of the Systems – Defined Benefit Plans

Investments

The State of Montana Board of Investments (BOI), as authorized by state law, invests the defined benefit plans' assets in investment pools. Each plan owns an equity position in the pools and receives proportionate investment income from the pools in accordance with respective ownership. The investment pools are: Montana Short Term Investment Pool, Montana Domestic Equity Pool, Retirement Funds Bond Pool, Montana International Equity Pool, Montana Real Estate Pool and Montana Private Equity Pool. Each plan's allocated share of the investment in the pools is shown in the Statement of Fiduciary Net Position of the plan. Investment gains and losses are reported in the Statement of Changes in Fiduciary Net Position.

Economic Condition

According to the Board of Investments Chief Investment Officer, Clifford Sheets, "The pace of economic growth in the U.S. remained moderate over the past year, with a real GDP growth rate of 2.5% year-over-year through June. This annual growth disguised significant underlying volatility, however, given a negative 2.1% annualized rate of growth for the first quarter of this year after above average growth during the second half of 2013. The weak first quarter was blamed on unusually severe winter weather rather than signaling anything more fundamental, and in fact the economy rebounded during the second quarter at a 4.2% annualized pace based on the latest GDP release. Despite the recent volatility, the U.S. economic recovery is now technically entering its sixth year.

There are no warning signs of an imminent setback, with the Conference Board's index of U.S. leading indicators having posted a strong advance in July, pointing to continued economic growth over at least the next three to six months.

"Expectations for the balance of 2014 point to continued improvement in the U.S. economy, with several current readings of manufacturing, business investment, and personal consumption showing an upward trend. The consensus outlook for real GDP over the balance of 2014 is calling for a growth rate of 3%. This is the same rate of growth being predicted for the full calendar year 2015 at this time. In comparison, the European economic outlook has deteriorated recently, with the Eurozone countries reporting a flat second quarter, following a prior year of mere 0.1% to 0.3% annualized growth each quarter. Asian economies, on balance, are seeing some slowing in their pace of growth as well while Japan continues its aggressive monetary policy to break the cycle of slow growth and deflation that has plagued the country for over two decades.

"The U.S. also appears to be making better progress than many other countries in its employment situation. The unemployment rate has declined noticeably to a 6.1% rate, down over 1% in the past year. The number of jobs being added has averaged approximately 200,000 per month during the year through August. This positive trend belies some underlying weakness in the labor market however, as indicated by a low labor force participation rate and a high proportion of part time jobs. The Federal Reserve (Fed) remains sensitive to any risk a monetary policy change could pose to the broader economy and the jobs market in particular.

"As the labor market slowly improves there has been a slow but steady improvement in personal consumption as disposable income picks up and consumer confidence remains on a positive track. Corporate profit growth has also remained positive as low inflation, particularly low wage inflation, has allowed companies to maintain high profit margins. This backdrop has bolstered investor confidence and been supportive of the bull market in stocks during the past year.

"Currently the financial markets are focused on central bank policies, particularly in the U.S. and Europe, with a divergence in their respective directions expected over the next year. The Fed has nearly concluded tapering its asset purchase program and the consensus among economists is that an increase in the Fed funds rate is likely in mid-2015. At the same time the European Central Bank is taking more aggressive steps to bolster weak growth and low inflation. How successful the Fed is in managing expectations will be important over the next several months, and will no doubt have a big impact on the reaction of the markets. Still, the fundamental improvement in the U.S. economy is the most important development to keep in mind, though a more mixed message will likely continue to prevail internationally." (Written September 19, 2014)

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Defined Benefit Plans Total Investments

At June 30, 2014, the PERB's defined benefit plans held total investments of $6.1 billion, an increase of $766.9 million from fiscal year 2013 investment totals. Below are the schedules of Fiduciary Net Position and Changes in Fiduciary Net Position for the defined benefit plans, including comparative totals from fiscal year 2013.

Analysis of Individual Systems

PERS-DBRP and Education

The PERS-DBRP provides retirement, disability, and death benefits for covered

Fiduciary Net Position - Defined Benefit Plans

As of June 30, 2014

(dollars in thousands)

	PERS		PERS-DCRP DISABILITY OPEB[1]		JRS		HPORS		SRS	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Assets:										
Cash and Receivables	$ 123,734	67,395	2,443	2,182	2,169	1,259	3,091	1,723	7,665	4,507
Securities Lending Collateral	207,294	192,294	2	6	3,520	3,247	5,278	4,903	11,902	10,873
Investments	4,825,560	4,236,336	27	2	81,957	71,548	122,868	108,008	277,018	239,536
Property and Equipment	49	9			2	3	2	2	2	3
Intangible Assets	613	114			180	34	153	28	180	34
Total Assets	5,157,250	4,496,148	2,472	2,190	87,828	76,091	131,392	114,664	296,767	254,953
Liabilities:										
Securities Lending Liability	207,294	192,294	2	6	3,520	3,247	5,278	4,903	11,902	10,873
Other Payables	4,281	2,021			82	52	102	70	207	204
Total Liabilities	211,575	194,315	2	6	3,602	3,299	5,380	4,973	12,109	11,077
Total Net Position	$ 4,945,675	4,301,833	2,470	2,184	84,226	72,792	126,012	109,691	284,658	243,876

[1] The 2013 figures have been restated due to the DC Disability being classifed as an OPEB fund.

Changes In Fiduciary Net Position - Defined Benefit Plans

For the year ended June 30, 2014 *- and comparative totals for June 30, 2013*

(dollars in thousands)

	PERS		PERS-DCRP DISABILITY OPEB[1]		JRS		HPORS		SRS	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Additions:										
Contributions	$ 222,968	163,257	311	288	2,133	2,363	7,194	6,514	13,136	12,111
Investment Income (Loss)	732,483	505,052	3	5	12,424	8,409	18,684	12,826	41,802	28,154
Total Additions	955,451	668,309	314	293	14,557	10,772	25,878	19,340	54,938	40,265
Deductions:										
Benefits	296,183	274,021	29	29	3,023	2,553	9,344	8,709	12,732	11,583
Refunds	10,357	11,637					99	51	1,211	1,184
OPEB Expenses	77	82			1	1	1	1	1	1
Administrative Expenses	3,704	3,761			99	184	108	180	202	286
Miscellaneous Expenses	1,201	1,211								
Total Deductions	311,522	290,712	29	29	3,123	2,738	9,552	8,941	14,146	13,054
Incr/(Decr) in Net Position	$ 643,929	377,597	285	264	11,434	8,034	16,326	10,399	40,792	27,211
Prior Period Adjustments	-86	23			-2		-4		-11	

[1] The 2013 figures have been restated due to the DC Disability being classifed as an OPEB fund.

employees of the State, local governments, certain employees of the Montana University System, and school districts. Member and employer contributions and earnings on investments fund the benefits of the plan. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. The PERS-DBRP and the DB Education Fund have been combined in these comparisons. The PERS-DBRP net position restricted for pension benefits at June 30, 2014 amounted to $4.9 billion, an increase of $643.8 million (15.0%) from $4.30 billion at June 30, 2013.

GWPORS		MPORS		FURS		VFCA		TOTAL	
2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
4,056	2,307	19,719	16,015	19,946	16,094	2,408	1,992	185,231	113,474
5,784	5,156	12,864	11,578	12,958	11,609	1,326	1,238	260,928	240,904
134,680	113,666	299,473	255,112	301,618	255,833	30,840	27,147	6,074,041	5,307,188
2	3	2	2	2	2	2	2	63	26
180	34	161	30	159	30	147	27	1,773	331
144,702	121,166	332,219	282,737	334,683	283,568	34,723	30,406	6,522,036	5,661,923
5,784	5,156	12,864	11,578	12,958	11,609	1,326	1,237	260,928	240,903
173	169	166	150	165	133	125	102	5,301	2,901
5,957	5,325	13,030	11,728	13,123	11,742	1,451	1,339	266,229	243,804
138,745	115,841	319,189	271,009	321,560	271,826	33,272	29,067	6,255,807	5,418,119

GWPORS		MPORS		FURS		VFCA		TOTAL	
2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
8,224	7,786	23,641	22,883	23,472	22,110	1,818	1,711	302,897	239,023
20,075	13,106	45,244	30,037	45,478	30,035	4,817	3,383	921,010	631,007
28,299	20,892	68,885	52,920	68,950	52,145	6,635	5,094	1,223,907	870,030
3,979	3,575	19,450	18,463	18,872	17,670	2,281	2,819	365,893	339,422
1,250	864	1,078	1,838	180	73			14,175	15,647
1	1	1	1	1	1	1	1	84	89
160	246	165	245	152	228	135	205	4,725	5,335
						14	15	1,215	1,226
5,390	4,686	20,694	20,547	19,205	17,972	2,431	3,040	386,092	361,719
22,909	16,206	48,191	32,373	49,745	34,173	4,204	2,054	837,815	508,311
-4		-12		-12				-131	23

Additions to the PERS-DBRP net position restricted for pension benefits include employer, member and state contributions, a statutory appropriation from the general fund, and investment income. For the fiscal year ended June 30, contributions increased to $223.0 million in fiscal year 2014 from $163.3 million in fiscal year 2013, an increase of $59.7 million (36.6%). Contributions increased due to members and employers contributing at an increased rate. The plan recognized total net investment income of $732.5 million for the fiscal year ended June 30, 2014, compared with total net investment income of $505.1 million for the fiscal year ended June 30, 2013. The increase in investment income is a result of a strong year of investment returns.

As a result of the 2013 Legislation and effective July 1, 2013, PERS-DBRP receives additional contributions from the coal severance tax fund and interest income from the coal severance tax permanent fund. The coal severance tax collections are credited to the general fund of the State of Montana and are statutorily appropriated on July 1 each year to the trust fund for the PERS-DBRP. The coal tax is transferred quarterly and the interest income is credited monthly. The amount that was received for fiscal year 2014 was $33.7 million. They are recorded as *Miscellaneous Revenue* in the financial statements.

Deductions from the PERS-DBRP net position restricted for pension benefits include retirement benefits, refunds, and administrative expenses. For fiscal year 2014, benefits amounted to $296.2 million, an increase of $22.2 million (8.1%) from fiscal year 2013. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2014, refunds amounted to $10.4 million, a decrease of $1.3 million (11.0%) from fiscal year 2013. The decrease in refunds was due to less people refunding their accounts. For fiscal year 2014, the costs of administering the plan's benefits amounted to $3.7 million, a decrease of $57.0 thousand (1.5%) from fiscal year 2013. The decrease in administrative expenses for fiscal year 2014 was due to the ability to capitalize, instead of expense, costs for the application development stage associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the PERS-DBRP.

An actuarial valuation of the PERS-DBRP assets and benefit obligations is performed annually. The reported differences are in part due to the enactment of HB 454 during the 2013 Legislative Session, and the changes resulting from the preliminary injunction issued December 2013 regarding the GABA provision.

HB 454 lowered the GABA rate for all members including retirees to a maximum of 1.5%. As a result, the fiscal year 2013 valuation was performed using a 1.5% GABA. The preliminary injunction has restored the GABA rate to 3% until the lawsuit is settled, therefore, the fiscal year 2014 valuation was performed using the 3% GABA. Each year a supplemental valuation was performed for the other GABA rate, with the 2013 supplemental using the 3% GABA and the 2014 supplemental using the 1.5% GABA.

When comparing the valuations on June 30, 2014 and June 30, 2013 the years to amortize the unfunded actuarial liability is 29.3 years (3% GABA) and 14.5 years (1.5% GABA), respectively. When comparing the supplemental valuations on June 30, 2014

and June 30, 2013 the years to amortize the unfunded actuarial liability is 10.5 years (1.5% GABA) and 43.7 years (3% GABA), respectively.

The funded status of the plan increased to 74% at June 30, 2014 (3% GABA) from 70% at June 30, 2013 (3% GABA). The funded status at June 30, 2013 was 80% (1.5% GABA) when the valuation was produced using the 1.5% GABA. The PERS-DBRP actuarial value of assets was less than actuarial liabilities by $1.6 billion at June 30, 2014 (3% GABA), compared with $1.8 billion at June 30, 2013 (3% GABA) or $1.0 billion at June 30, 2013 (1.5% GABA). The main reason for the increase in the unfunded actuarial liability was the preliminary injunction keeping the GABA at 3%. The reversion back to the GABA provisions specified by the statute prior to the enactment of HB 454 increased the actuarial liability by $810.7 million. Furthermore, the increase in the unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $224 million and a total liability loss adding $799 million to the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

PERS-DCRP DISABILITY OPEB

The PERS-DCRP Disability OPEB provides disability benefits for defined contribution plan members. A percentage of employer contributions and earnings on investments fund the benefits of the plan. The DC Disability OPEB net position restricted for pensions at June 30, 2014 amounted to $2.47 million, an increase of $286 thousand (13.1%) from $2.18 million at June 30, 2013.

Additions to the DC Disability OPEB net position restricted for pension benefits include employer contributions and investment income. For the fiscal year ended June 30, 2014, employer contributions amounted to $311 thousand, an increase of $23 thousand (8.1%) from fiscal year 2013. Contributions increased due to an increase in payroll. The plan recognized total net investment income of $3 thousand for the fiscal year ended June 30, 2014 compared with total net investment income of $5 thousand for the fiscal year ended June 30, 2013. The decrease in investment income is a result of the lower average yield earned in the Short-Term Investment Pool (STIP), which was the sole asset held during the fiscal year. The investments have historically been directed to STIP due to, in comparison to other funds, the immaturity of this plan and relatively small amount of investable assets. After FY2014, a plan was initiated to further diversify the assets of the DC Disability OPEB into longer term asset classes with potentially higher returns over time. MPERA and BOI have begun work to further diversify the DC Disability OPEB assets with this objective and action will be taken as soon as administratively possible.

Deductions from the DC Disability OPEB net position restricted for pension benefits are disability retirement benefits. For fiscal year 2014, benefits amounted to $29.5 thousand, an increase of $461 (1.6%) from fiscal year 2013.

An actuarial valuation of the DC Disability OPEB assets and disability benefit obligations is performed every two years. The valuation was performed using the June 30, 2013 data and demographic and economic assumptions. At June 30, 2013, the date of the most recent actuarial valuation, the unfunded actuarial liability does not amortize. The funded status of the plan is 80.5% and the unfunded actuarial liability is $500 thousand.

During the year ended June 30, 2013, the DC

Disability OPEB assets gained 0.25% on a market basis. This return was below the DC Disability OPEB assumed rate of return of 3.50%. Because this is the first valuation for DC Disability OPEB, the actuarial value of assets is set equal to the market value of assets.

JRS

The JRS provides retirement, disability, and death benefits for all Montana judges of the district courts, justices of the Supreme Court, the Chief Water Judge and the Associate Water Judge. Member and employer contributions and earnings on investments fund the benefits of the plan. The JRS net position restricted for pensions at June 30, 2014 amounted to $84.2 million, an increase of $11.4 million (15.7%) from $72.8 million at June 30, 2013.

Additions to the JRS net position restricted for pension benefits include member and employer contributions, and investment income. For the fiscal year ended June 30, 2014, contributions amounted to $2.1 million, a decrease of $230 thousand (9.7%) from fiscal year 2013. Even though there was an increase of one active member, contributions decreased due to the timing of members retiring and no longer contributing to the plan. The plan recognized total net investment income of $12.4 million for the fiscal year ended June 30, 2014, compared with total net investment income of $8.4 million for the fiscal year ended June 30, 2013. The increase in investment income is a result of a strong year of investment returns.

Deductions from the JRS net position restricted for pension benefits include retirement benefits, and administrative expenses. For fiscal year 2014, benefits amounted to $3.0 million, an increase of $470 thousand (18.4%) from fiscal year 2013. The increase in benefits was due to an increase in retirees and an increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA recipients. For fiscal year 2014, administrative expenses amounted to $99 thousand, a decrease of $85 thousand (46.2%) from fiscal year 2013. The decrease in administrative expenses for fiscal year 2014 was due to the ability to capitalize, instead of expense, costs for the application development stage associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the JRS.

An actuarial valuation of the JRS assets and benefit obligations is performed annually. At June 30, 2014, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability is still zero due to the actuarial surplus. The funded status of the plan increased to 155% at June 30, 2014 from 143% at June 30, 2013.

The JRS actuarial value of assets was more than actuarial liabilities by $27.9 million at June 30, 2014, compared with a $21.1 million actuarial surplus at June 30, 2013. The decrease in the unfunded actuarial liability as of the last actuarial valuation is due to recognizing past investment gains of $3.6 million and a total liability gain deducting $1.0 million from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions and the increase in retirements.

HPORS

The HPORS provides retirement, disability, and death benefits for members of the Montana Highway Patrol. Member and employer contributions, a statutory appropriation from the general fund, and earnings on investments fund the benefits of the plan. The HPORS net position restricted for pensions at June 30,

2014 amounted to $126.0 million, an increase of $16.3 million (14.9%) from $109.7 million at June 30, 2013.

Additions to the HPORS net position restricted for pension benefits include employer and member contributions, a statutory appropriation from the general fund, and investment income. For the fiscal year ended June 30, 2014, contributions increased to $7.2 million from $6.5 million in fiscal year 2013, an increase of $680 thousand (10.4%). Contributions increased due to an increase in active members contributing to the plan and an increase in employer and employee contribution rates as of July 1, 2013. The plan recognized total net investment income of $18.7 million for the fiscal year ended June 30, 2014, compared with total net investment income of $12.8 million for the fiscal year ended June 30, 2013. The increase in investment income is a result of a strong year of investment returns.

Deductions from the HPORS net position restricted for pension benefits include retirement benefits, refunds, and administrative expenses. For fiscal year 2014, benefits amounted to $9.3 million, an increase of $636 thousand (7.3%) from fiscal year 2013. The increase in benefit payments was due to an increase in benefit recipients and the increases in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA recipients. For fiscal year 2014, refunds amounted to $99 thousand, an increase of $47 thousand (92.7%) from fiscal year 2013. The increase in refunds was due to the same number of refund requests from members but generally with larger account balances. For fiscal year 2014, administrative expenses were $108 thousand, a decrease of $73 thousand (40.2%) from fiscal year 2013. The decrease in administrative expenses for fiscal year 2014 was due to the ability to capitalize, instead of expense, costs for the application development stage associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the HPORS.

An actuarial valuation of the HPORS assets and benefit obligations is performed annually. At June 30, 2014, the date of the most recent actuarial valuation, the years to amoritize the unfunded actuarial liability is 30.3 years a decrease from 44.6 years at June 30, 2013. The funded status of the plan increased to 64% at June 30, 2014 from 60% at June 30, 2013.

The HPORS actuarial value of assets was less than actuarial liabilities by $66.2 million at June 30, 2014, compared with $69.9 million at June 30, 2013. The decrease in the unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $5.6 million and a total liability loss adding $267 thousand to the actuarial liability as a result of salaries and the experience of the plan being different from the actuarial assumptions.

SRS

The SRS provides retirement, disability, and death benefits for all Department of Justice criminal investigators hired after July 1, 1993, detention officers hired after July 1, 2005, and all Montana sheriffs. Member and employer contributions and earnings on investments fund the benefits of the plan. The SRS net position restricted for pension benefits at June 30, 2014 amounted to $284.7 million, an increase of $40.8 million (16.7%) from $243.9 million at June 30, 2013.

Additions to the SRS net position restricted

for pension benefits include member and employer contributions, and investment income. For the fiscal year ended June 30, 2014, contributions increased to $13.1 million from $12.1 million in fiscal year 2013, for an increase of $1.0 million (8.5%). The increase in contributions was due to an increase in active members contributing to the plan. The plan recognized total net investment income of $41.8 million for the fiscal year ended June 30, 2014, compared with total net investment income of $28.2 million for the fiscal year ended June 30, 2013. The increase in investment income is a result of a strong year of investment returns.

Deductions from the SRS net position restricted for pension benefits include retirement benefits, refunds, and administrative expenses. For fiscal year 2014, benefits amounted to $12.7 million, an increase of $1.1 million (9.9%) from fiscal year 2013. The increase in benefit payments was due to an increase in benefit recipients and an increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2014, refunds amounted to $1.2 million, an increase of $28 thousand (2.3%) from fiscal year 2013. The increase in refunds was due to fewer refund requests from members but with generally larger account balances. For fiscal year 2014, administrative expenses amounted to $202 thousand, a decrease of $84 thousand (29.4%) from fiscal year 2013. The decrease in administrative expenses for fiscal year 2014 was due to the ability to capitalize, instead of expense, costs for the application development stage associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the SRS.

An actuarial valuation of the SRS assets and benefit obligations is performed annually. At June 30, 2014, the date of the most recent actuarial valuation, the unfunded actuarial liability does not amortize, same as fiscal year ended June 30, 2013. The funded status of the plan increased to 81% at June 30, 2014 from 77% at June 30, 2013.

The SRS actuarial value of assets was less than actuarial liabilities by $61.1 million at June 30, 2014, compared with $68.9 million at June 30, 2013. The decrease in the unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $12.2 million and a total liability gain deducting $195 thousand from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

GWPORS

The GWPORS provides retirement, disability, and death benefits for game wardens, warden supervisory personnel and state peace officers. Member and employer contributions and earnings on investments fund the benefits of the plan. The GWPORS net position restricted for pension benefits at June 30, 2014, amounted to $138.7 million, an increase of $22.9 million (19.8%) from $115.8 million at June 30, 2013.

Additions to the GWPORS net position restricted for pension benefits include member and employer contributions, and investment income. For the fiscal year ended June 30, 2014, contributions increased to $8.2 million from $7.8 million in fiscal year 2013, an increase of $438 thousand (5.6%). Although the plan saw a decrease in active plan members, the contributions increased slightly due to an increase in active members' compensation. The plan recognized total net investment income of $20.1 million for the fiscal year ended June 30, 2014, compared with total net

investment income of $13.1 million for the fiscal year ended June 30, 2013. The increase in investment income is a result of a strong year of investment returns.

Deductions from the GWPORS net position restricted for pensions include retirement benefits, refunds, and administrative expenses. For fiscal year 2014, benefits amounted to $4.0 million, an increase of $404 thousand (11.3%) from fiscal year 2013. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA). For fiscal year 2014, refunds amounted to $1.3 million, an increase of $387 thousand (44.8%) from fiscal year 2013. The increase in refunds was due to fewer refund requests from members but with generally larger account balances. For fiscal year 2014, administrative expenses amounted to $160 thousand, a decrease of $86 thousand (34.9%) from fiscal year 2013. The decrease in administrative expenses for fiscal year 2014 was due to the ability to capitalize, instead of expense, costs for the application development stage associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the GWPORS.

An actuarial valuation of the GWPORS assets and benefit obligations is performed annually. At June 30, 2014, the date of the most recent actuarial valuation, the unfunded actuarial liability does not amortize, same as fiscal year ended June 30, 2013. The funded status of the plan increased to 84% at June 30, 2014 from 80% at June 30, 2013.

The GWPORS actuarial value of assets was less than actuarial liabilities by $25.2 million at June 30, 2014, compared with $27.9 million at June 30, 2013. The decrease in unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $5.5 million and a total liability loss adding $731 thousand to the actuarial liability as a result of salaries and the experience of the plan being different from the actuarial assumptions.

MPORS

The MPORS provides retirement, disability, and death benefits for municipal police officers employed by first- and second-class cities, and other cities that adopt the plan. MPORS also has an option for members to participate in a Deferred Retirement Option Plan (DROP). Member, employer and state contributions and earnings on investments fund the benefits of the plan. The MPORS net position restricted for pension benefits at June 30, 2014 amounted to $319.2 million, an increase of $48.2 million (17.8%) from $271.0 million at June 30, 2013.

Additions to the MPORS net position restricted for pension benefits include employer, member, and state contributions, and investment income. For the fiscal year ended June 30, 2014, contributions increased to $23.6 million from $22.9 million in fiscal year 2013, for an increase of $758 thousand (3.3%). Contributions increased due to an increase of active members contributing to the plan. The plan recognized total net investment income of $45.2 million for the fiscal year ended June 30, 2014, compared with total net investment income of $30.0 million for fiscal year ended June 30, 2013. The increase in investment income is a result of a strong year of investment returns.

Deductions from the MPORS net position restricted for pension benefits include retirement benefits, refunds, and

administrative expenses. For fiscal year 2014, benefits amounted to $19.5 million, an increase of $987 thousand (5.3%) from fiscal year 2013. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment (GABA) or the minimum benefit adjustment for non-GABA recipients. For fiscal year 2014, refunds amounted to $1.1 million, a decrease of $759 thousand (41.3%) from fiscal year 2013. The decrease in refunds for fiscal year 2014 was due to fewer refunds being processed for smaller dollar amounts. For fiscal year 2014, administrative expenses were $165 thousand, a decrease of $79.3 thousand (32.4%) from fiscal year 2013. The decrease in administrative expenses for fiscal year 2014 was due to the ability to capitalize, instead of expense, costs for the application development stage associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the MPORS.

An actuarial valuation of the MPORS assets and benefit obligations is performed annually. At June 30, 2014, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability decreased to 19.6 years from 23.8 years at June 30, 2013. The funded status of the plan increased to 63% at June 30, 2014 from 58% at June 30, 2013.

The MPORS actuarial value of assets was less than actuarial liabilities by $175.6 million at June 30, 2014, compared with $187.4 million at June 30, 2013. The decrease in the actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $12.5 million and a total liability gain deducting $2.0 million from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

FURS

The FURS provides retirement, disability, and death benefits for firefighters employed by first- and second-class cities, other cities and rural fire departments that adopt the plan, and firefighters hired by the Montana Air National Guard (MANG) on or after October 1, 2001. Member, employer, and state contributions, and earnings on investments fund the benefits of the plan. The FURS net position restricted for pension benefits at June 30, 2014, amounted to $321.6 million, an increase of $49.7 million (18.3%) from $271.8 million at June 30, 2013.

Additions to the FURS net position restricted for pension benefits include employer, member, and state contributions, and investment income. For the fiscal year ended June 30, 2014, contributions increased to $23.5 million from $22.1 million in fiscal year 2013, an increase of $1.4 million (6.2%). Contributions increased due to an increase of active members contributing to the plan. The plan recognized total net investment income of $45.5 million for the fiscal year ended June 30, 2014, compared with total net investment income of $30.0 million for the fiscal year ended June 30, 2013. The increase in investment income is a result of a strong year of investment returns.

Deductions from the FURS net position restricted for pension benefits include retirement benefits, refunds, and administrative expenses. For fiscal year 2014, benefits amounted to $18.9 million, an increase of $1.2 million (6.8%) from fiscal year 2013. The increase in benefit payments was due to the increase in benefit recipients and the increase in the average recipient's benefit due to the guaranteed annual benefit adjustment

(GABA) or the minimum benefit adjustment for non-GABA recipients. For fiscal year 2014, refunds amounted to $180 thousand, an increase of $107 thousand (146.3%) from fiscal year 2013. The increase in refunds was due to an increase in refund requests and refunds being processed at a larger dollar amount. For fiscal year 2014, administrative expenses were $152 thousand, a decrease of $75 thousand (33.1%) from fiscal year 2013. The decrease in administrative expenses for fiscal year 2014 was due to the ability to capitalize, instead of expense, costs for the application development stage associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the FURS.

An actuarial valuation of the FURS assets and benefit obligations is performed annually. At June 30, 2014, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability decreased to 11.3 years from 13.9 years at June 30, 2013. The funded status of the plan increased to 72% at June 30, 2014 from 66% at June 30, 2013.

The FURS actuarial value of assets was less than actuarial liabilities by $118.1 million at June 30, 2014, compared with $133.3 million at June 30, 2013. The decrease in unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $12.5 million and a total liability gain deducting $160 thousand from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions.

VFCA

The VFCA provides retirement, disability, and death benefits for volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas. State contributions and earnings on investments fund the benefits of the plan. The VFCA net position restricted for pension benefits at June 30, 2014 amounted to $33.3 million, an increase of $4.2 million (14.5%) from $29.1 million at June 30, 2013.

Additions to the VFCA net position restricted for pension benefits include state contributions, and investment income. For the fiscal year ended June 30, 2014, contributions increased to $1.8 million from $1.7 million in fiscal year 2013, an increase of $107 thousand (6.2%). Contributions increased because of increased fire insurance premium taxes distributed to the VFCA from the general fund. The plan recognized total net investment income of $4.8 million for the fiscal year ended June 30, 2014, compared with total net investment income of $3.4 million for the fiscal year ended June 30, 2013. The increase in investment income is a result of a strong year of investment returns.

Deductions from the VFCA net position restricted for pension benefits include retirement benefits, administrative expenses, and supplemental insurance payments. For fiscal year 2014, benefits amounted to $2.3 million, a decrease of $538 thousand (19.1%) from fiscal year 2013. Although there was an increase in benefit recipients, the recipients are retiring earlier with less credited years of service. For fiscal year 2014, administrative expenses amounted to $135 thousand, a decrease of $70 thousand (34.3%) from fiscal year 2013. The decrease in administrative expenses for fiscal year 2014 was due to the ability to capitalize, instead of expense, costs for the application development stage associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the

VFCA. For fiscal year 2014, supplemental insurance payments amounted to $14 thousand, a decrease of $1 thousand from fiscal year 2013.

An actuarial valuation of the VFCA assets and benefit obligations is performed annually. At June 30, 2014, the date of the most recent actuarial valuation, the years to amortize the unfunded actuarial liability decreased to 5.1 years from 8.5 years at June 30, 2013 and the funded status of the plan increased to 82% at June 30, 2014 from 75% at June 30, 2013.

The VFCA actuarial value of assets was less than actuarial liabilities by $6.7 million at June 30, 2014, compared with $9.5 million at June 30, 2013. The decrease in unfunded actuarial liability as of the last actuarial valuation is a result of recognizing past investment gains of $1.3 million and a total liability gain deducting $618 thousand from the actuarial liability as a result of the experience of the plan being different from the actuarial assumptions and retroactive credited years of service adjustments.

Actuarial Valuations and Funding Progress

An experience study was performed during fiscal year 2010 for the six year period July 1, 2003 to June 30, 2009. The experience study resulted in changes to the demographic and some of the economic actuarial assumptions and implementation of new actuarial factors. An economic experience study was performed during August 2013. This experience study looked at the following economic assumptions: inflation, investment rate of return, wage growth, and interest on member contributions. The results were presented to the PERB September 12, 2013. The PERB voted to maintain the assumptions of the 2010 experience study. Due to the implementation of GASB No. 67, the PERB did adopt a new economic assumption, the Administrative Expenses as a Percentage of Payroll. The administrative expense assumption is now explicitly stated as a cost element rather than being included implicitly within the investment return.

The following table shows the administrative expense rate for each of the defined benefit plans, excluding DC Disability OPEB.

Administrative Expenses as a Percentage of Payroll
as of June 30, 2014

System	Percentage
PERS-DBRP	0.27%
JRS	0.15%
HPORS	0.23%
SRS	0.17%
GWPORS	0.17%
MPORS	0.20%
FURS	0.19%
VFCA*	N/A

* Not applicable to VFCA, members are unpaid volunteers
The Administrative Expense assumption is a flat dollar amount of $61,000.

An actuarial valuation of each of the defined benefit plans is performed annually. The most recent actuarial valuation was performed for fiscal year ended June 30, 2014. The DC Disability OPEB plan valuation is performed biennially and was last valued on June 30, 2013.

The PERB's funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of employer and member contributions and other contributions for some systems, and the income from investments

provide the cash flow needed to finance future retirement benefits. Historically the Annual Required Contribution (ARC) has been a critical component of funding for defined benefit plans. Effective for financial statements for fiscal years beginning after June 15, 2013, the new Governmental Accounting Standards Board (GASB) Statement No. 67 no longer defines an ARC. This has been replaced with the Actuarial Determined Contribution (ADC). The ADC, as defined by GASB, is a target or recommended contribution to a defined benefit pension plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.

Investment earnings are also critical to the defined benefit plans' funding; investment losses deteriorate the plans' funding. Market losses were experienced in fiscal years 2001, 2002 and fiscal years 2008 and 2009. Positive market returns were experienced in fiscal years 2003 through 2007 and fiscal years 2010 through 2014. The funding status increased for all defined benefit plans in the latest valuation.

Montana's Constitution requires the public retirement plans to be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is 30 years or less. All systems were actuarially funded within 30 years in 2007 and 2008. This was due to positive investment returns, recognition of all losses experienced in 2001 and 2002, and the $25 million cash infusion in 2006 from the State of Montana to the PERS-DBRP. The impact of the negative investment returns in 2008 and 2009 resulted in the PERS-DBRP not amortizing in fiscal years 2009, 2010, 2011, and 2012; and GWPORS and SRS, not amortizing in fiscal years 2009, 2010, 2011, 2012, 2013, and 2014. However, the asset smoothing method impacts are limited to four years.

During the 2013 Legislative session, House Bill (HB) 454 made changes to PERS employer contributions. These changes were effective July 1, 2013. Employers pay 1% more in addition to the 0.27% added in 2007 and 2009. The employer rate will increase by an additional 0.1% per year for 10 years until reaching a total increase of 2.27%. All additional contributions including the 0.27% added in 2007 and 2009 will cease when the amortization period drops below 25 years and remains below 25 years following the reduction of all additional contributions.

Similarly, due to 2013 legislation, effective July 1, 2013, the PERS-DBRP member contributions were increased 1% from 6.9% to 7.9%, but will be reduced when the amortization period drops below 25 years and remains below 25 years following the reduction of all additional contributions.

Effective July 1, 2013, HB 454 decreased the GABA for PERS-DBRP current and future retirees, to a cap of 1.5% and further reduced the GABA 0.1% for each 2% that the funded ratio is less than 90%. Additionally, if the amortization period exceeds 40 years the GABA will be zero. However, on December 20, 2013, a preliminary injunction was granted and the 3% GABA is restored until the lawsuit is resolved.

HB 454, also effective July 1, 2013, created a statutorily appropriation to the PERS-DBRP trust fund from the coal severance tax collections during the year and an appropriation of the interest income from the coal tax permanent fund to the PERS-DBRP trust fund. The coal severance taxes collected

are credited to the general fund of the State of Montana and are statutorily appropriated on July 1 each year to the trust fund for the PERS-DBRP. The coal tax is transferred quarterly and the interest income is credited monthly. They are recorded as *Miscellaneous Revenue* in the financial statements.

Effective July 1, 2013, in HPORS, the employer contribution rate increased from 36.33% to 38.33% of pay and all member contributions increase at a rate of 1% per year for four years. GABA was also reduced for new hires from 3.0% to 1.5% and the vesting period for new hires increased from 5 years to 10 years.

According to the PERB's June 30, 2014 actuarial valuations, the HPORS made considerable improvements in funding with the 2013 plan changes and now amoritizes in 30.3 years. The unfunded liability in GWPORS, SRS, and DC Disability OPEB does not amortize.

Overall, funding ratios range from a high of 155% (JRS) to a low of 63% (MPORS). The Schedule of Funding Progress shows the funding for the last six fiscal years. The table also shows the amount by which actuarial assets exceeded or fell short of actuarial liabilities. The actuary performs a smoothing of investment gains or losses over a period of four years. At June 30, 2014, the actuarial value of assets of all plans, excluding DC Disability OPEB, was less than the market value of assets by $433.6 million due to an average positive 16.82% market return in fiscal year 2014.

Defined Contribution Plans

The PERB administers two defined contribution plans: The Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the Deferred Compensation (457) Plan. Below and at the bottom of the next page are the schedules of Fiduciary Net Position and

Fiduciary Net Position - Defined Contribution Plans

As of June 30, 2014 *- and comparative totals for June 30, 2013*

(dollars in thousands)

	PERS-DCRP		457-PLAN		TOTAL	
	2014	2013 [1]	2014	2013	2014	2013
Assets:						
Cash and Receivables	$ 1,757	2,053	1,305	1,616	3,062	3,669
Securities Lending Collateral	1	4	1	4	2	8
Investments	127,741	101,414	432,457	397,619	560,198	499,033
Property and Equipment	7	2	6	2	13	4
Intangible Assets	147	27	174	32	321	59
Total Assets	129,653	103,500	433,943	399,273	563,596	502,773
Liabilities:						
Securities Lending Collateral	1	4	1	4	2	8
Other Payables	238	197	465	413	703	610
Total Liabilities	239	201	466	417	705	618
Total Net Position - restricted for pensions	$ 129,414	103,299	433,477	398,856	562,891	502,155

[1] The 2013 figures have been restated due to the DC Disability being classifed as an OPEB fund. These figures are now reported on the Defined Benefit Financial Statements as PERS-DCRP Disability OPEB.

Changes in Fiduciary Net Position for the two defined contribution plans including comparative totals from fiscal year 2013.

PERS-DCRP

The PERS-DCRP is established under section 401(a) of the Internal Revenue Code and Title 19, chapters 2 & 3 of the Montana Code Annotated (MCA). This plan provides retirement, disability, and death benefits for plan members. This plan was available to all active PERS members effective July 1, 2002. All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. The plan member and employer contributions and earnings on investments fund the benefits of the plan. The PERS-DCRP net position restricted for pension benefits at June 30, 2014, amounted to $129.4 million, an increase of $26.1 million (25.3%) from $103.3 million at June 30, 2013.

Additions to the PERS-DCRP net position restricted for pension benefits include contributions and investment income. For the fiscal year ended June 30, 2014, contributions increased to $13.2 million from $11.5 million in fiscal year 2013, an increase of $1.8 million (15.3%) from fiscal year 2013. Contributions increased due to an increase in the total compensation reported as a result of an increase in active participants and an increase in member and employer contribution rates. The plan recognized net investment income of $18.4 million for fiscal year ended 2014, compared with net investment income of $11.7 million in fiscal year 2013. The increase in investment income is a result of a strong year of investment returns.

Deductions from the PERS-DCRP net position restricted for pension benefits include member distributions, administrative expenses, and miscellaneous expenses. For fiscal year 2014, distributions amounted to $4.7 million, an

Changes In Fiduciary Net Position - Defined Contribution Plans

For the year ended June 30, 2014 *- and comparative totals for June 30, 2013*

(dollars in thousands)

	PERS-DCRP		457-PLAN		TOTAL	
	2014	2013 [1]	2014	2013	2014	2013
Additions:						
Contributions	$ 13,236	11,480	24,527	20,633	37,763	32,113
Investment Income (Loss)	18,367	11,679	35,165	21,219	53,532	32,898
Total Additions	31,603	23,159	59,692	41,852	91,295	65,011
Deductions:						
Distributions	4,738	4,350	24,250	19,644	28,988	23,994
OPEB Expenses	10	9	6	5	16	14
Administrative Expenses	548	576	400	440	948	1,016
Miscellaneous Expenses	174	162	458	581	632	743
Total Deductions	5,470	5,097	25,114	20,670	30,584	25,767
Incr/(Decr) in Net Position	$ 26,133	18,062	34,578	21,182	60,711	39,244
Prior Period Adjustments	(2,202)		42		(2,160)	

[1] The 2013 figures have been restated due to the DC Disability being classifed as an OPEB fund. These figures are now reported on the Defined Benefit Financial Statements as PERS-DCRP Disability OPEB.

increase of $387 thousand (8.9%) from fiscal year 2013. The increase in distributions was due to defined contribution members taking IRS permitted rollovers and periodic or lump sum distributions at larger dollar amounts. For fiscal year 2014, the costs of administering the plan amounted to $549 thousand, a decrease of $27 thousand (4.8%) from fiscal year 2013. The decrease in administrative expenses for fiscal year 2014 was due to the ability to capitalize, instead of expense, costs for the application development stage associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the PERS-DCRP.

Miscellaneous expenses increased from $162 thousand in fiscal year 2013 to $174 thousand in fiscal year 2014, an increase of $12 thousand (7.3%) from fiscal year 2013. The increase in miscellaneous expenses was due to the change in accounting classification of these fees from consulting fees to investment expenses and the PERB's decision to reduce the fees charged to participants. Miscellaneous expenses are the PERB's administrative fees assessed by the vendors based on account balances.

Deferred Compensation (457(b)) Plan

The Deferred Compensation Plan is established under section 457(b) of the Internal Revenue Code and Title 19, chapter 50 of the Montana Code Annotated (MCA). This plan is a voluntary supplemental retirement savings plan for those who choose and are eligible to participate. The Deferred Compensation Plan is funded by contributions and by investment earnings. The Deferred Compensation net position restricted for pension benefits at June 30, 2014 amounted to $433.5 million, an increase of $34.6 million (8.7%) from $398.9 million at June 30, 2013.

Additions to the Deferred Compensation Plan net position restricted for pension benefits include contributions and investment income. For fiscal year 2014, contributions increased to $24.5 million from $20.6 million in fiscal year 2013, an increase of $3.9 million (18.9%). Contributions increased due to an increase in overall membership, an increase in the amount of deferrals to the plan, and the addition of two contracting employers who contribute to the plan on their employees behalf. The plan recognized net investment income of $35.2 million for fiscal year 2014, compared with net investment income of $21.2 million for fiscal year 2013. The increase in investment income is a result of a strong year of investment returns.

Deductions from the Deferred Compensation Plan net position restricted for pension benefits include member and beneficiary distributions, administrative expense, and miscellaneous expenses. For fiscal year 2014, distributions amounted to $24.3 million, an increase of $4.6 million (23.5%) from $19.6 million in fiscal year 2013. The increase in distributions was due to more deferred compensation participants taking distributions. The administrative expenses decreased from $440 thousand in fiscal year 2013 to $400 thousand in fiscal year 2014, a decrease of $40 thousand (9.1%) from fiscal year 2013. The decrease in administrative expenses for fiscal year 2014 was due to the ability to capitalize, instead of expense, costs for the application development stage associated with the continuing data cleansing and technological development of a new computer application to modernize the administrative processes associated with the Deferred Compensation Plan.

Miscellaneous expenses, decreased from $581 thousand in fiscal year 2013 to $458 thousand

in fiscal year 2014, a decrease of $123 thousand (21.2%) from fiscal year 2013. The decrease in miscellaneous expenses was due to the change in accounting classification of these fees from consulting fees to investment expenses and the PERB's decision to reduce the fees charged to participants. Miscellaneous expenses are the PERB's administrative fees assessed by the vendors based on account balances.

Public Employees' Retirement Board

A Component Unit of the State of Montana

Statement of Fiduciary Net Position - Pension Trust Funds

as of June 30, 2014

	PERS-DBRP	PERS-DCRP DISABILITY OPEB	JRS	HPORS	SRS	GWPORS
Assets						
Cash and Short-term Investments	$ 112,640,494	2,433,716	2,072,701	2,954,562	7,144,759	3,905,823
Securities Lending Collateral (Note A6)	207,294,059	1,819	3,520,162	5,278,340	11,902,273	5,784,026
Receivables						
Interest	5,366,670	234	91,166	136,659	308,149	149,800
Accounts Receivable	1,649,012		4,757		212,039	292
Due from Other Funds	455,549	8,764				
Due from Primary Government	3,601,869					
Notes Receivable	20,714					
Total Receivables	11,093,814	8,998	95,923	136,659	520,188	150,092
Investments, at fair value (Note A6)						
Montana Domestic Equity Pool (MDEP)	1,933,145,416		32,822,168	49,217,235	110,982,408	53,924,613
Retirement Fund Bond Pool (RFBP)	1,069,517,475		18,164,286	27,240,251	61,416,932	29,847,669
Montana International Equity Pool (MTIP)	877,318,009		14,901,247	22,336,148	50,345,809	24,481,722
Montana Private Equity Pool (MPEP)	517,872,903		8,795,905	13,183,996	29,720,257	14,481,381
Montana Real Estate Pool (MTRP)	426,527,659		7,251,400	10,861,912	24,475,124	11,905,568
Structured Investment Vehicles (SIV)	1,178,652	26,902	21,506	28,656	77,400	39,297
Defined Contributions Fixed Investments						
Defined Contributions Variable Investments						
Deferred Compensation Life Insurance						
Total Investments	4,825,560,114	26,902	81,956,512	122,868,198	277,017,930	134,680,250
Capital Assets						
Property and Equipment, at cost,						
net of Accumulated Depreciation (Note A2)	48,585		1,850	1,570	1,850	1,850
Intangible Assets, at cost,						
net of Amortization Expense (Note A2)	613,261		180,001	152,792	180,001	180,001
Total Capital Assets	661,846		181,851	154,362	181,851	181,851
Total Assets	5,157,250,327	2,471,435	87,827,149	131,392,121	296,767,001	144,702,042
Liabilities						
Securities Lending Liability	207,294,059	1,819	3,520,162	5,278,340	11,902,273	5,784,026
Accounts Payable	1,042,096		61,817	54,481	67,596	79,425
Unearned Revenue	106,676			4,549	10,846	8,244
Due to Other Funds	376,005		9,304	31,677	112,231	70,401
Due to Primary Government	2,069,366					
Compensated Absences	294,111		9,355	7,940	9,355	9,355
OPEB Implicit Rate Subsidy LT	392,848		1,527	2,924	7,279	5,343
Total Liabilities	211,575,161	1,819	3,602,165	5,379,911	12,109,580	5,956,794
Net Position - Restricted for Pension Benefits	$ 4,945,675,166	2,469,616	84,224,984	126,012,210	284,657,421	138,745,248

The notes to the financial statements are an integral part of this statement.

Defined Benefit Pension Plans				Defined Contribution Plans			
			Total Defined Benefit			Total Defined Contribution	Total Pension Trust Funds
MPORS	FURS	VFCA	Pension Plans	PERS-DCRP	457 Plan	Plans	2014
6,115,996	6,418,098	2,373,514	146,059,663	1,384,379	1,030,798	2,415,177	148,474,840
12,863,741	12,957,777	1,325,836	260,928,033	904	708	1,612	260,929,645
333,103	335,451	34,310	6,755,542	120	97	217	6,755,759
220,563	184,766	668	2,272,097	17,821	274,498	292,319	2,564,416
			464,313	355,104		355,104	819,417
13,048,938	13,007,210		29,658,017				29,658,017
			20,714				20,714
13,602,604	13,527,427	34,978	39,170,683	373,045	274,595	647,640	39,818,323
119,960,980	120,837,029	12,354,213	2,433,244,062				2,433,244,062
66,376,974	66,856,361	6,833,723	1,346,253,671				1,346,253,671
54,440,301	54,854,984	5,603,078	1,104,281,298				1,104,281,298
32,111,372	32,331,969	3,297,163	651,794,946				651,794,946
26,516,296	26,667,085	2,726,359	536,931,403				536,931,403
66,584	70,118	25,737	1,534,852	13,365	10,468	23,833	1,558,685
				10,014,868	235,981,392	245,996,260	245,996,260
				117,713,137	196,452,846	314,165,983	314,165,983
					12,316	12,316	12,316
299,472,507	301,617,546	30,840,273	6,074,040,232	127,741,370	432,457,022	560,198,392	6,634,238,624
1,656	1,635	1,506	60,502	6,599	5,861	12,460	72,962
161,164	159,071	146,513	1,772,804	146,513	173,722	320,235	2,093,039
162,820	160,706	148,019	1,833,306	153,112	179,583	332,695	2,166,001
332,217,668	334,681,554	34,722,620	6,522,031,917	129,652,810	433,942,706	563,595,516	7,085,627,433
12,863,741	12,957,777	1,325,836	260,928,033	904	708	1,612	260,929,645
63,485	75,074	50,316	1,494,290	154,656	405,274	559,930	2,054,220
2,485	3,698		136,498				136,498
85,023	72,976	61,798	819,415				819,415
			2,069,366				2,069,366
8,375	8,266	7,614	354,371	38,474	31,808	70,282	424,653
6,278	5,201	5,111	426,511	44,441	28,254	72,695	499,206
13,029,387	13,122,992	1,450,675	266,228,484	238,475	466,044	704,519	266,933,003
319,188,281	321,558,562	33,271,945	6,255,803,433	129,414,335	433,476,662	562,890,997	6,818,694,430

Public Employees’ Retirement Board

A Component Unit of the State of Montana

Statement of Changes in Fiduciary Net Position - Pension Trust Funds

for the year ended June 30, 2014

	PERS-DBRP	PERS-DCRP DISABILITY OPEB	JRS	HPORS	SRS	GWPORS
Additions						
Contributions (Note C)						
Employer	$ 96,184,988	311,307	1,651,483	5,473,577	6,689,311	3,762,217
Plan Member	92,041,676		469,255	1,455,548	6,430,377	4,461,261
Membership Fees	19					
Interest Reserve Buyback	118,372		12,206	2,494	16,802	628
Retirement Incentive Program	61,276					
Miscellaneous Revenue	33,675,313					
State Contributions	886,408			261,930		
Nonvested Member Forfeitures						
Total Contributions	222,968,052	311,307	2,132,944	7,193,549	13,136,490	8,224,106
Investments (Note A6)						
Net Appreciation (Depreciation) in Fair Value of Investments	553,236,306		9,526,532	14,038,430	33,023,862	16,520,866
Interest	192,324,675	3,278	3,119,898	4,979,260	9,525,446	3,913,749
Dividends	12,926,748		219,178	329,771	738,003	354,779
Investment Expense	(26,863,258)		(455,790)	(685,330)	(1,534,248)	(737,647)
Net Investment Income	731,624,471	3,278	12,409,818	18,662,131	41,753,063	20,051,747
Securities Lending Income						
Securities Lending Income	1,016,588	4	17,238	25,936	58,046	27,902
Securities Lending Rebate and Fees	(158,504)		(2,688)	(4,044)	(9,051)	(4,351)
Net Securities Lending Income	858,084	4	14,550	21,892	48,995	23,551
Total Net Investment Income	732,482,555	3,282	12,424,368	18,684,023	41,802,058	20,075,298
Total Additions	955,450,607	314,589	14,557,312	25,877,572	54,938,548	28,299,404
Deductions (Note C)						
Benefits	296,183,076	29,461	3,022,512	9,344,441	12,732,103	3,979,269
Refunds/Distributions	10,069,997			83,927	1,184,655	1,187,157
Refunds to Other Plans	286,922			14,639	26,577	63,063
Transfers to DCRP	1,027,622					
Transfers to MUS-RP	173,691					
Supplemental Insurance Payments						
OPEB Expenses	76,894		1,082	919	1,082	1,082
Administrative Expenses	3,704,049		99,002	107,811	201,928	160,098
Miscellaneous Expenses						
Total Deductions	311,522,251	29,461	3,122,596	9,551,737	14,146,345	5,390,669
Net Increase (Decrease)	643,928,356	285,128	11,434,716	16,325,835	40,792,203	22,908,735
Net Position Restricted for Pension Benefits						
Beginning of Year	4,301,832,667		72,792,380	109,690,706	243,876,180	115,840,754
Prior Period Adjustment	(85,857)	2,184,488	(2,112)	(4,331)	(10,962)	(4,241)
End of Year	$ 4,945,675,166	2,469,616	84,224,984	126,012,210	284,657,421	138,745,248

The notes to the financial statements are an integral part of this statement.

			Defined Benefit Pension Plans			Defined Contribution Plans	
			Total Defined Benefit			Total Defined Contribution	Total Pension Trust Funds
MPORS	FURS	VFCA	Pension Plans	PERS-DCRP	457 Plan	Plans	2014
6,459,488	5,767,277		126,299,648	4,409,781	80,811	4,490,592	130,790,240
4,124,656	4,691,799		113,674,572	8,534,159	24,255,092	32,789,251	146,463,823
			19				19
8,365	5,534		164,401				164,401
			61,276				61,276
			33,675,313	40,268	191,415	231,683	33,906,996
13,048,938	13,007,210	1,818,237	29,022,723				29,022,723
				251,907		251,907	251,907
23,641,447	23,471,820	1,818,237	302,897,952	13,236,115	24,527,318	37,763,433	340,661,385
34,920,213	35,571,085	3,377,547	700,214,841	15,238,624	26,820,713	42,059,337	742,274,178
11,132,219	10,720,258	1,525,345	237,244,128	3,225,342	9,465,320	12,690,662	249,934,790
798,420	802,784	84,947	16,254,630				16,254,630
(1,659,938)	(1,669,063)	(176,463)	(33,781,737)	(97,085)	(1,120,925)	(1,218,010)	(34,999,747)
45,190,914	45,425,064	4,811,376	919,931,862	18,366,881	35,165,108	53,531,989	973,463,851
62,856	63,198	6,656	1,278,424	2	2	4	1,278,428
(9,801)	(9,854)	(1,038)	(199,331)				(199,331)
53,055	53,344	5,618	1,079,093	2	2	4	1,079,097
45,243,969	45,478,408	4,816,994	921,010,955	18,366,883	35,165,110	53,531,993	974,542,948
68,885,416	68,950,228	6,635,231	1,223,908,907	31,602,998	59,692,428	91,295,426	1,315,204,333
19,449,550	18,871,929	2,280,876	365,893,217				365,893,217
1,017,920	166,090		13,709,746	4,737,591	24,250,124	28,987,715	42,697,461
60,404	14,111		465,716				465,716
			1,027,622				1,027,622
			173,691				173,691
		13,800	13,800				13,800
970	955	881	83,865	9,580	6,458	16,038	99,903
165,404	152,240	134,805	4,725,337	548,556	399,564	948,120	5,673,457
				173,791	457,987	631,778	631,778
20,694,248	19,205,325	2,430,362	386,092,994	5,469,518	25,114,133	30,583,651	416,676,645
48,191,168	49,744,903	4,204,869	837,815,913	26,133,480	34,578,295	60,711,775	898,527,688
271,009,167	271,825,743	29,067,228	5,415,934,825	105,482,942	398,856,172	504,339,114	5,920,273,939
(12,054)	(12,084)	(152)	2,052,695	(2,202,087)	42,195	(2,159,892)	(107,197)
319,188,281	321,558,562	33,271,945	6,255,803,433	129,414,335	433,476,662	562,890,997	6,818,694,430

Public Employees' Retirement Board

A Component Unit of the State of Montana

Notes to the Financial Statements

for the Fiscal Year Ended June 30, 2014

The Public Employees' Retirement Board (PERB) is an independent, seven-member board, appointed by the Governor. The members are assigned five-year, staggered terms. The PERB consists of two members at large, two active defined benefit public employees, one active defined contribution public employee, one member experienced in investments, and one retired public employee. The PERB approves the annual operating budget, developed by the Montana Public Employee Retirement Administration (MPERA) management, before the beginning of the fiscal year. As governed by statute, the PERB's defined benefit administrative expenses may not exceed 1.5 percent of the total defined benefit plan retirement benefits paid. In addition, the PERB decides legislative policy and priorities, hires the executive director, establish the policies and procedures that govern operations at MPERA, and hear and rule on appeal matters of disabilities, retirees, and members. Board members do not receive compensation for their service to MPERA, but are reimbursed for necessary expenses incurred while serving.

The PERB administers eleven retirement plans, and the related member education funds. The retirement plans are nine defined benefit plans and two defined contribution plans. The defined benefit retirement plans are the Public Employees' Retirement System (PERS-DBRP), Public Employees' Retirement System Defined Contribution Disability Other Post-Employment Benefit (PERS-DCRP Disability OPEB), Judges' Retirement System (JRS), Highway Patrol Officers' Retirement System (HPORS), Sheriffs' Retirement System (SRS), Game Wardens' and Peace Officers' Retirement System (GWPORS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and the Volunteer Firefighters' Compensation Act (VFCA). The defined contribution retirement plans are the Public Employees' Retirement System (PERS-DCRP) and the Deferred Compensation (IRC §457) Plan.

The PERS-DCRP was implemented July 1, 2002. All new PERS members, after July 1, 2002, have a 12-month window to file an irrevocable plan choice election. PERS members are provided education regarding their decision to participate in the Defined Benefit Retirement Plan (PERS-DBRP) or the Defined Contribution Retirement Plan (PERS-DCRP). If members are employees of the university system they have a third choice, the Montana University System Retirement Program (MUS-RP). Further education is provided for the members who choose the PERS-DCRP, including information on investment choices.

The PERB began administering the Deferred Compensation (457) Plan on July 1, 1999. The Deferred Compensation Plan is available to all employees of the State, the Montana University System and contracting political subdivisions. The MPERA as a state agency, participates as an employer in the PERS-DBRP, PERS-DCRP and the Deferred Compensation Plan.

The assets of each plan are maintained separately, including member education funds.

The assets may be used only for the payment of benefits to the members and administrative expenses of the appropriate plan, in accordance with the terms of each plan as prescribed in Title 19 of the Montana Code Annotated (MCA). The financial statements are presented by combining the PERS-DBRP and the DBRP Education Fund and by combining the PERS-DCRP and the DCRP Education Fund. A presentation of the individual funds is shown at the end of the financial section.

A. Summary of Significant Accounting Policies

1. Basis of Accounting

The PERB is a discretely presented component unit Pension Trust Fund of the State of Montana financial reporting entity. The MPERA, staff of the PERB, prepares the accounting records and financial statements for the fiduciary pension trust funds using the accrual basis of accounting. For the pension trust funds, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period in which they are earned and become measurable. Benefits and refunds/distributions are recognized in the accounting period in which they are due and payable. Expenses are recognized in the period incurred. Administrative expenses are financed through investment earnings on the pension trust fund for the defined benefit plans. Interfund receivables and payables exist at year-end for defined benefit administrative expenses that are accounted for within PERS-DBRP and allocated to the other defined benefit plans at year-end. Costs specifically related to the MPERAtiv program are charged directly to the individual plans.

The PERB adheres to Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments;* GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus;* GASB Statement No. 38, *Certain Financial Statement Note Disclosures;* GASB Statement No. 40, *Deposit and Investment Risk Disclosures;* GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans;* GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section;* GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions;* GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets;* GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments;* GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position;* GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities;* and GASB Statement No. 67, *Financial Reporting for Pension Plans.*

For fiscal year 2014, the PERB has implemented GASB Statement No. 67. Implementation of this Statement addresses accounting and financial requirements for pension plans. GASB No. 67 requires

improvments in financial reporting primarily through enhanced notes to the financial statements, and schedules of required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures.

The fiscal year 2014 financial statements contain prior period adjustments to the PERS-DBRP for prior years' employer reporting errors where members should have been reported but were not; a restatement by BOI of fiscal year 2013 investment expense for all plans due to the dividend/interest income and other investment expenses being understated as a result of implementation of GASB No. 67; a correction of the accounting and presentation of the PERS-DCRP Disability OPEB as a defined benefit trust fund out of the PERS-DCRP trust fund; and the correction of an error in the State of Montana neglecting to amortize any portion of prior year amounts of OPEB expenses causing an overstatement of each year's expense and liability since the implementation of GASB No. 45 in fiscal year 2008.

Participants of the PERS-DCRP are usually charged, on a quarterly basis, a flat fee plus a basis point fee based on their individual account balances. In fiscal year 2014, the PERB paid these fees. The record keeper, Great-West Financial (Great-West), withholds payment of Great-West's contractual expenses and the remaining fees are remitted to the PERB to cover the PERB's plan administrative expenses. The fees remitted to the PERB are recorded as Miscellaneous Revenue in the financial statements.

Participants of the Deferred Compensation Plan are usually charged, on a quarterly basis, a flat fee plus a basis point fee based on their individual account balances. In fiscal year 2014, the PERB paid these fees. The record keeper, Great-West, withholds payment of Great-West's contractual expenses and the remaining fees are remitted to the PERB to cover the PERB's administrative expenses of the plan. The fees remitted to the PERB are recorded as Miscellaneous Revenue in the financial statements.

2. Capital Assets and Equipment Used in Operations

Assets under $5,000 are expensed in the year purchased. Assets (equipment) valued at $5,000 or more are recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. Assets (other intangibles) valued at $100,000 or more are recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. Equipment consists of two servers purchased for the data cleansing project which is part of the MPERAtiv program, and a primary file server. Property consists of a remodel to the office space.

The $2,093,039 intangible asset, reported at cost, consists of the development of the MPERAtiv software. This intangible asset has been accounted for as construction work in progress and will be amortized over 10 years.

MPERA has been working since March 2011 on the four to five year MPERAtiv

program. MPERAtiv includes the implementation of a document imaging system completed in May 2012; a data cleansing project; a new line of business application named Public Employee Retirement Information System (PERIS); and new member, employer, and vendor web portals. During this process, several phases will be implemented to improve operational efficiency, provide better service to our plan members, employers, other customers, and address disaster recovery concerns surrounding our current paper driven processes.

The PERIS application was prompted by members' expectations of web accessed services; the age and limitations of our existing systems that are increasingly difficult to maintain; and recommendations from the State's Information Technology Services Division (SITSD) to move away from the old Integrated Database Management System (IDMS) platform. MPERA's IDMS platforms were put in place in 1985 (retiree), 1993 (active), and 2006 (volunteer fire). The PERIS application will replace the IDMS platforms as well as the Oracle Web Reporting applications implemented in two phases between 2002 (payroll reporting) and 2004 (457).

3. Operating Lease

Operating leases are rental agreements where the payments are chargeable as rent and recorded as administrative expenses. MPERA renegotiated a 7-year lease for office space in November 2013, at the location of 100 North Park Avenue, Helena, MT. The lease is payable monthly and includes inflationary adjustments over the period of the lease.

4. Net Pension Liablity of Employers

The net pension liability (the retirement systems' liability determined in accordance with GASB Statement No. 67 less the fiduciary net position) as of June 30, 2014, is shown in the Schedule of Employers' Net Pension Liability (NPL) at the top of the next page.

Actuarial valuations of the ongoing systems involve estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. The information used includes, but is not limited to, the plan provisions, employee data, and financial information provided by the PERB. Amounts determined regarding the NPL are subject to revision with each study as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Employers' Net Pension Liability, presented as Required Supplementary Information (RSI) following the notes to the statements, presents multi-year trend information about whether the plan fiduciary net positions are increasing or decreasing over time relative to the Total Pension Liability (TPL).

The TPL as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2013, and rolled-forward using generally accepted actuarial procedures.

A summary of the actuarial assumptions as of the latest actuarial valuation is shown in the table at the bottom of the next page, as well as in the Notes to the RSI at the end of this section.

Employers' Net Pension Liability / (Asset) as of June 30, 2014

(dollar amounts are in thousands)

System	Total Pension Liability (a)	Plan Fiduciary Net Position[1] (b)	Employers' Net Pension Liability / (Asset) (a-b)	Plan Fiduciary Net Position as a % of the Total Pension Liability (b/a)	Covered Payroll (c)	Net Pension Liability / (Asset) as a % of Covered Employee Payroll ((a-b)/c)
PERS-DBRP	$6,188,781	$4,942,770	$1,246,011	79.87%	$1,129,109	110.35%
JRS	51,632	84,223	(32,591)	163.12%	6,355	(512.86)%
HPORS	183,133	126,010	57,123	68.81%	14,149	403.72%
SRS	326,272	284,655	41,617	87.24%	64,673	64.35%
GWPORS	153,864	138,743	15,121	90.17%	41,637	36.32%
MPORS	476,322	319,186	157,136	67.01%	44,427	353.70%
FURS	419,173	321,557	97,617	76.71%	39,892	244.70%
VFCA	38,359	33,270	5,089	86.73%	N/A[2]	N/A[2]

[1]The financial statement Plan Fiduciary Net Position is different from the GASB Statement No. 67 reported Plan Fiduciary Net Position. The difference is due to adjustments that occurred after GASB 67 reports were completed for fiscal year ending June 30, 2014. The PERS-DB Education Fund balance is not included in the GASB 67 reporting for fiscal year ending June 30, 2014.

[2]Covered payroll is not applicable to VFCA because members are unpaid volunteers.

Summary of Actuarial Assumptions

	PERS	JRS	HPORS	SRS	GWPORS	MPORS	FURS	VFCA
Valuation date	6/30/2013	6/30/2013	6/30/2013	6/30/2013	6/30/2013	6/30/2013	6/30/2013	6/30/2013
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level dollar, open
Remaining amortization period	30	30	30	30	30	30	30	20
Amortization growth rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Asset valuation method	4-year smoothed, market	4-year smoothed, market	4-year smoothed, market	4-year smoothed, market	4-year smoothed, market	4-year smoothed, market	4-year smoothed, market	4-year smoothed, market
Actuarial assumptions:								
Investment rate of return, net of investment and administrative expenses	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%
Projected salary increases:								
General Wage Growth*	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	N/A
Merit	0% - 6%	None	0% - 7.3%	0% - 7.3%	0% - 7.3%	0% - 7.3%	0% - 7.3%	N/A
*Includes inflation at	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Mortality (healthy): RP-2000 Combined Mortality projected to 2015								
Benefit Adjustments								
GABA	3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% after 1 year	3% after 1 yr or 1.5% if hired on or after July 1, 2013, after 3 years	3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% after 1 year	3% afer 1 year	N/A
Non-GABA	N/A	Biennial increase to salary of active member in like position	2% per yr service, not to exceed 5%, for probationary officer's base pay	N/A	N/A	50% newly con-firmed officer	50% newly con-firmed officer	N/A

The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of June 30, 2014, are summarized in the table below.

Target Allocations

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash equivalents	2.0%	-0.25%
Domestic equity	36.0%	4.80%
Foreign equity	18.0%	6.05%
Fixed income	24.0%	1.68%
Private equity	12.0%	8.50%
Real estate	8.0%	4.50%

The discount rate used to measure the TPL for all Systems was 7.75% which is the assumed long-term expected rate of return on investments. The projection of cash flows used to determine the discount rate assumed that member, employer, and state contributions will be made at the contribution rates specified in the applicable Montana statutes, which can only be changed by the Legislature. Based on those assumptions, all the Systems' fiduciary net position was projected to be available to make all the projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

In accordance with GASB 67 regarding the disclosure of the sensitivity of the NPL to changes in the discount rate, the table below presents the NPL of the participating employers as using the discount rate of 7.75%, as well as what the employers' NPL would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Sensitivity of NPL / (Asset) based on Changes in Discount Rate

(dollar amounts are in thousands)

System	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
PERS-DBRP	$ 1,982,275	$ 1,246,011	$ 625,045
JRS	(27,643)	(32,591)	(36,877)
HPORS	82,333	57,123	36,566
SRS	87,589	41,617	3,676
GWPORS	38,967	15,121	(4,440)
MPORS	226,561	157,136	102,023
FURS	156,824	97,617	49,291
VFCA	8,860	5,089	1,883

As can be seen from the above table, changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL can be very significant for a relatively small change in the discount rate.

The annual money-weighted rate of return on plan investments expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. A schedule of the annual money-weighted rate of return for all Systems is presented in the table below and in the RSI at the end of this section.

Annual Money-Weighted Rate of Return as of June 30, 2014	
PERS-DBRP	17.18%
JRS	17.17%
HPORS	17.19%
SRS	17.15%
GWPORS	17.12%
MPORS	17.16%
FURS	17.15%
VFCA	17.23%

5. Other Post-Employment Benefits (OPEB)

The State of Montana implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions.* This statement requires the disclosure of employer liability for retiree medical subsidies and other post-employment benefits. The OPEB liability for MPERA, staff of the PERB, at June 30, 2014 and June 30, 2013 was $499,205 and $419,384, respectively. The June 30, 2013 figure is restated due to a correction of an error in not amortizing any portion of prior year amounts of OPEB expenses since the implementation of GASB No. 45 in fiscal year 2008. This error caused an overstatement of each year's expense and liability.

Plan Descriptions: MPERA employees and dependents are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration. In accordance with section 2-18-704, MCA, the State provides optional post-employment medical, vision, and dental health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees who retire under applicable retirement provisions and their dependents; and (2) surviving dependents of deceased employees. For GASB Statement No. 45 reporting, the State Group Benefits Plan is considered an agent multiple-employer plan and MPERA is considered to be a separate employer participating in the plan.

In addition to the employee benefits, the following post-employment benefits are provided. Montana Department of Administration established retiree medical premiums varying between $299 and $1,109 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Retirees pay 100% of the premiums for medical, dental, and vision. Administratively established monthly dental premiums vary between $17.50 and $60.00; monthly vision premiums vary between $5.76 and $16.76; both premiums vary depending on the coverage selected. Basic life insurance in the amount of $14,000 is provided until age 65 at a cost of $1.90 per month. The State Benefit Plans reimburse all validated medical claims net of member obligations (annual deductibles and coinsurance of the

members' selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. The State acts as secondary payer for retired Medicare-eligible claimants.

Benefits Not Included in the Actuarial Valuation: The dental and vision benefits are fully-insured and retirees pay 100% of the cost for both dental and vision; therefore, no liability for these benefits is calculated in the actuarial valuation. Continuation of the life insurance benefit is not available as an employer-provided group insurance benefit for retirees; therefore, no liability for life insurance is calculated in this valuation.

Funding Policy: The following estimates were prepared based on an actuarial valuation prepared as of the year ending December 31, 2013 for the Department of Administration. The resulting State of Montana Actuarial Valuation of Other Post-Employment Benefits Plan (plan) contains the MPERA data and is available through the address below.

Montana Department of Administration
State Accounting Division
Room 255, Mitchell Bldg
125 N Roberts St
PO Box 200102
Helena, MT 59620-0102

GASB Statement No. 45 requires the plan's participants, including MPERA, to report each year the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year of retiree health care costs and amortize any unfunded actuarial liablities (or funding excess) over a period not to exceed 30 years. The 2013 ARC is calculated for all the State plan's participants and then allocated to individual participants. MPERA's 2014 allocated portion of the ARC is estimated at $100,084 and is based on the plan's current ARC rate of 5.69% of participants' annual covered payroll. MPERA's 2014 ARC is equal to an annual amount required each year to fully fund the liability over 30 years.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in the actuarial accrued liablities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for OPEB, presented as

RSI following the notes to the statements, presents information concerning the actuarial value of plan assets and liabilities. In the January 1, 2013 actuarial valuation date, the projected unit cost funding method is used. The actuarial assumptions did not include an investment rate of return since no assets meet the definition of plan assets under GASB Statements No. 43 or No. 45. Annual healthcare costs trend rates of 10% were used for both medical and prescription claims. These rates decrease by 0.5% per year down to 5.0% at 2023 and beyond for medical and by 1.0% per year down to 5.0% at 2018 and beyond for prescription costs. The unfunded actuarial accrued liability is amortized following a 30-year level percent of pay amortization on an open basis, using a 4.25% discount rate and a 2.50% payroll growth rate assumption.

The State finances claims on a pay-as-you-go basis and does not advance-fund the OPEB liability. While this liability is disclosed for financial statement purposes it does not represent a legal liability of the State of Montana or MPERA. Therefore, the following cost information shows no value for Plan Assets made by MPERA.

Annual Other Post-Employment Benefits (OPEB) Cost: For the fiscal year ended June 30, 2014, MPERA's allocated annual OPEB cost (expense) increased to $99,906 from $98,535 in fiscal year 2013. For the fiscal year ending June 30, 2014, the interest on the net OPEB obligation decreased to $3,719 from $4,608 in fiscal year 2013. The cost that was allocated to MPERA for the years ended June 30, 2014 and June 30, 2013 was $99,906 and $98,535, respectively. The June 30, 2013 figure is restated due to a correction of an error in not amortizing any portion of prior year amounts of OPEB expenses since the implementation of GASB No. 45 in fiscal year 2008. This error caused an overstatement of each year's expense and liability.

The PERB annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and prior are as follows.

Annual OPEB Cost

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	97,412	9.35%	345,344
6/30/2013	98,535	11.99%	419,384
6/30/2014	99,906	19.12%	499,205

Figures before 6/30/2014 have been restated due to a change in calculaton of annual OPEB costs, which did not previously include amortization adjustments and contributions.

Net OPEB Obligation

Annual required contribution	$ 100,084
Cummulative Interest on Net OPEB	20,388
Less Amortization	20,566
Annual OPEB cost	99,906
Less Contributions Made	20,085
Change in Net OPEB for year	79,821
Restated FY2013 Net OPEB obligation - beginning of year	419,384
Net OPEB obligation - end of year	$ 499,205

Funded Status and Funding Progress: The most recent actuarial valuation available was completed by the State of Montana as of January 1, 2013 for the calendar year ending December 31, 2013. This actuarial valuation is completed every two years with the next valuation to be completed as of January 1, 2015 for the calendar year

ending December 31, 2015.

The MPERA allocation of the plan as of the calendar year ending December 31, 2013 was as follows: Actuarial Liability (AL) is $969,217; Actuarial Value of Plan Assets is $0; Unfunded Actuarial Liability (UAL) is $969,127; Funded Ratio (Actuarial Value of Plan Assets/AL) is 0 percent; Covered Payroll (Active Plan Members) is $1,991,739; and the UAL as a Percentage of Covered Payroll is 48.66%.

Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, and Net OPEB Obligation for fiscal years prior to 2014 have been restated due to a change in the calculation of the annual OPEB costs, which did not previously include the adjustments for amortization and contributions.

6. Method Used To Value Investments

According to Article VIII, section 13 of the Montana Constitution and section 19-2-504, MCA, the Board of Investments (BOI) has a fiduciary responsibility for investing the defined benefit retirement plan assets on behalf of the defined benefit plan members. Investments are determined in accordance with the statutorily and constitutionally mandated "prudent expert principle." Pursuant to Article VIII, section 15 of the Montana Constitution and sections 19-2-502 and 19-2-503, MCA, the PERB has a fiduciary responsibility for the administration of the pension trust funds. For the defined benefit pools, the PERB relies on the Investment Policy Statements that are drafted and approved by the BOI with the assistance of RV Kuhns & Associates, Inc., the investment consultant. Investments are reported at fair value. As of June 30, 2014, there were six major diversified pools, Montana Short Term Investment Pool (STIP), Montana Domestic Equity Pool (MDEP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), Montana Private Equity Pool (MPEP) and Montana Real Estate Investment Pool (MTRP).

The PERS-DCRP and Deferred Compensation Plan's Montana Stable Value Fixed Fund (Fixed Investment) were administered through outside vendors Pacific Investment Management Company (PIMCO), custodial bank State Street Bank Kansas City (SSKC), and a third-party insurer, Transamerica. All money invested in the Montana Stable Value Fixed Fund investment of the PERS-DCRP and Deferred Compensation Plan are in a Pooled Trust.

For both the PERS-DCRP and Deferred Compensation plan the third party record keeper, Great-West Financial, tracks and reports the daily trading and valuations of all investment options including the assets held by the individual mutual fund companies.

In addition to the laws cited previously, the PERS-DCRP investments are also governed by section 19-3-2122, MCA and the Deferred Compensation Plan investments are governed by section 19-50-102, MCA.

There are separate investment policy statements for the PERS-DCRP and Deferred Compensation plans. The investment policies are reviewed by the PERB on an annual basis and the

investment options are reviewed quarterly by an independent third party consultant and investment analyst. In the review, each investment alternative is compared to its peers and the appropriate benchmark. In addition, each investment alternative is reviewed for other indicators including, but not limited to: style drift, duplication, and fund manager or other organizational changes. Investment alternatives that are determined to have a sub-standard performance rating or other negative indicators may be recommended for probation or termination. During the reviews, the PERB may decide to retain, replace or place in a probation status any of the offered mutual funds. Investments are reported at fair value as of June 30, 2014.

The following are the summaries of the BOI's fiscal year-end statements, the Stable Value Group Trust contracts and a statement about the variable investments. The BOI fiscal year statements and information on the income can be obtained by contacting BOI at the following address:

Montana Department of Commerce
Board of Investments
2401 Colonial Drive, 3rd Floor
PO Box 200126
Helena, MT 59620-0126.

STIP portfolio may include asset-backed securities, commercial paper, corporate and U.S. Government direct obligations, U.S. Government agency securities, repurchase agreements, institutional money market funds, certificates of deposit and variable-rate (floating rate) instruments. The purpose of STIP is the preservation of principal, while obtaining money market type returns and 24-hour liquidity. The BOI manages the STIP consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use an amortized cost rather than fair value to report net assets to compute unit values. The portfolio is carried at amortized cost or book value with a constant unit value of $1.00. State agencies with accounts that retain interest earnings are legally required to invest in STIP and the PERB elects to have all STIP income automatically reinvested. For fiscal year 2014, income was distributed on the first calendar day of each month. *Credit Risk* is the risk that the issuer of a STIP security may default in making timely principal and interest payments. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The total investments credit quality rating for STIP is not rated (NR). The PERB portion of STIP is $134.7 million or 5.36%.

At June 30, 2014, the STIP balance included Structure Investment Vehicles (SIVs) that were no longer liquid. This STIP Reserve account was established in November 2007. Income is distributed to STIP participants based on accrued interest and discount amortization. The accrued income and interest in this account is used as part of any incidental direct expenses incurred as a part of any SIV restructuring activity and to offset any potential principal loss on these securities in the future.

MDEP may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR's), equity derivatives and commingled funds. The MDEP

portfolio is limited to domestic stock or ADR investments. ADR investments are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. For *Custodial Credit Risk* as of June 30, 2014, all the MDEP securities were registered in the nominee name for the BOI and held in the possession of the BOI's custodial bank, State Street Bank. The PERB portion of MDEP is $2.4 billion or 63.17%.

RFBP portfolio includes corporate, sovereign, and foreign government bonds; U.S. Government direct obligations and U.S. Government agency securities; and cash equivalents. U.S. Government direct obligations include U.S. Treasury securities and debt explicitly guaranteed by the U.S. Government. U.S. Government agency securities include U.S. Government agency and mortgage-backed securities. U.S. Government mortgage-backed securities reflect participation in a pool of residential mortgages. The real estate buildings and pension residental mortgages are included in the RFBP portfolio. For *Custodial Credit Risk* as of June 30, 2014, all investments were registered in the name of the Montana BOI and held in the possession of the BOI's custodial bank, State Street Bank. There is no *Concentration of Credit Risk* for the PERB. *Credit Risk* is that the issuer of a fixed income security may default in making timely principal and interest payments. With the exception of the U.S. Government securities, the RFBP fixed income instruments have credit risk as measured by major credit rating services. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The total fixed income investments' credit quality rating for RFBP is not rated (NR). For *Interest Rate Risk* as of June 30, 2014, in accordance with GASB Statement No. 40, the BOI has selected the effective duration method to disclose interest rate risk. The total effective duration for RFBP's fixed income investments, as of June 30, 2014, is 5.07. The PERB portion of the entire RFBP is $1.3 billion or 63.18%. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The RFBP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $590.2 thousand or 50.19%.

MTIP may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR's), equity derivatives, and commingled funds. ADR investments are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. The MTIP portfolio includes holdings of securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. The MTIP portfolio invests in both developed and emerging markets. For *Custodial Credit Risk* as of June 30, 2014, all MTIP securities were registered in the nominee name for the BOI and held in the possession of the BOI's custodial bank, State Street Bank. The PERB portion of the entire MTIP is $1.1 billion or 63.19%. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The

MTIP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $590.3 thousand or 50.20%.

MPEP portfolio may include venture capital, leveraged buyout, mezzanine, distressed debt, special situation, and secondary investments. These investments are made via Limited Partnership Agreements in which the BOI and other institutional investors invest as Limited Partners in funds managed by a General Partner. These investments are riskier with higher potential return than public equity investments and are less liquid because the funds are usually committed for at least ten years. Realized capital gains are not distributed unless the gains are needed to pay management fees. Income due participants is distributed monthly on the first calendar day of each month. For *Custodial Credit Risk* as of June 30, 2014, all MPEP investments were recorded in the name of the Montana BOI and held in the possession of the BOI's custodial bank, State Street Bank. The PERB portion of the entire MPEP is $651.8 million or 63.21%. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MPEP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $13.1 million or 50.19%.

MTRP portfolio includes investments in private core, value-added, and opportunistic real estate. Core investments are the least risky with the lowest return and are usually managed in commingled accounts in which the investor purchases shares. Value-added and opportunistic real estate investments provide more risk and return and are less liquid than core investments. These investments are usually made through Limited Partnership Agreements. The MTRP invests its cash in STIP. Realized capital gains are not distributed unless the gains are needed to pay management fees. Income due participants is distributed monthly on the first calendar day of each month. Real estate investments held, in part, for PERS include a building at 100 North Park Avenue in Helena, MT; a building at 2273 Boot Hill Court in Bozeman, MT; a building at 2401 Colonial Drive in Helena, MT; and property located on California Street in Helena, MT. The BOI also holds the building located at 1712 Ninth Avenue in Helena, MT. For *Custodial Credit Risk* as of June 30, 2014, all MTRP investments were recorded in the name of the Montana BOI and held in the possession of the BOI's custodial bank, State Street Bank. The PERB portion of the entire MTRP is $536.9 million or 63.19%. *Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MTRP includes securities subject to foreign currency risk. The PERB portion of the foreign currency risk is $9.6 million or 50.19%.

Securities Lending Collateral, governed under the provisions of state statutes, BOI authorized the custodial bank, State Street Bank, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan.

The BOI and the custodial bank split the earnings, 80/20% respectively, on security lending activities. The securities lending collateral, securities lending collateral liability, securities lending income, and securities lending expense consist of allocations to PERB on a pro rate basis of its ownership share of each pool with securities lending activity. On any day including June 30th, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The private equity and real estate pools do not participate in securities lending.

Montana Stable Value Fixed Fund (Fixed Investment): The Montana Stable Value Fixed Fund option of the PERS-DCRP and the Deferred Compensation Plan, are administered through outside vendors Pacific Investment Management Company (PIMCO), custodial bank, State Street Bank Kansas City (SSKC), and a third-party insurer, Transamerica. When participants invest in the Montana Stable Value Fixed Fund option they are guaranteed a fixed rate of return. The Montana Stable Value Fixed Fund employs a synthetic stable value strategy where the investment manager, PIMCO, manages a diversified bond portfolio and a third party insurer, Transamerica, guarantees the participants' principal investments and earnings. Transamerica calculates a rate of return each quarter called the "crediting rate", which helps smooth participants' earnings over time. From July 1, 2013 through September 30, 2013, the crediting rate was used to credit earnings to participant accounts. Effective October 1, 2013, the fund's structure was changed to incorporate a money market-like liquidity strategy and calculate member investments based on a Net Asset Value (NAV).

Transamerica sets a fixed quarterly rate of return based on the investment manager's portfolio market value yield and duration.

All money invested in the Montana Stable Value Fixed Fund of the PERS-DCRP and Deferred Compensation Plan are invested in the Pooled Trust. The Pooled Trust qualifies as a group trust under sections 401(a), including section 401(a)(24) and 501(a), of the IRC of 1986, as amended. Under the Pooled Trust agreement Transamerica provides a guarantee of principal and sets a fixed quarterly crediting rate. The Pooled Trust assets are invested by PIMCO and are held under a custodial agreement with SSKC. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, PIMCO, and any third party insurers, such as Transamerica. *Concentration of Credit Risk* is addressed in the investment policy statement of the Montana Stable Value Fixed Fund.

Variable Investments for the PERS-DCRP and Deferred Compensation Plan are held and managed in a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. The selection of offered mutual funds is designed to provide participants with the ability to diversify investments and meet their individual investment goals and strategies. With advice from an independent investment analyst and assistance from the statutorily-created

Employee Investment Advisory Council (EIAC), the PERB conducts annual reviews of the offered mutual funds. The goal of the reviews is to ensure that the offered mutual funds meet standards established in the Investment Policy Statements adopted by the PERB. Each investment alternative is compared to its peers and an appropriate benchmark. In addition, each investment alternative is reviewed for other indicators including, but not limited to: style drift, duplication, and fund manager or other organizational changes. Investment alternatives that are determined to have a sub-standard performance rating or other negative indicators may be recommended for probation or termination. During the reviews the PERB may decide to retain, replace or place in a probation status any of the offered mutual funds. *Concentration of Credit Risk* is not addressed in the investment policy and investments in mutual funds are not required to be disclosed.

Investments are reported at fair value as of June 30, 2014. Available funds in the PERS-DCRP and Deferred Compensation Plan are listed in the description of the plans. A current listing may also be obtained by contacting MPERA.

B. Litigation

Each of the plans administered by the PERB may be involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management and legal counsel, the disposition of those matters should not have a material, adverse affect on any plan's financial position as a whole. Center for Mental Health (Baker) has been resolved and MPERA's liability was covered through the Montana Department of Administration's Risk Management and Tort Defense Division. The Wrzesien case could impact PERS' financial position as a whole but management and legal counsel believe it only reasonably possible, at the most, that claimants will prevail. Finally, even if the claimants prevail in the AMRPE lawsuit, the guaranteed annual benefit adjustment will remain at 3% for PERS members hired prior to July 1, 2007 and 1.5% for PERS members hired thereafter. These are the same GABA rates currently paid to PERS retirees and reflected in PERS' actuarial valuation.

Center for Mental Health. The legislature amended § 19-3-108(3), MCA in 1999 requiring PERS to exclude participation by certain employees hired by regional mental health centers on or after July 1, 1999 from PERS participation. The Center for Mental Health (CMH) continued to improperly report employees as PERS members until 2009 when MPERA discovered these errors. MPERA subsequently returned the incorrectly paid contributions to the employees and the employer, and corrected retirement benefits. The impacted employees hired legal counsel, Joseph Cosgrove of Hoyt and Blewett in Great Falls, to represent them. Cosgrove filed an administrative claim with Risk Management and Tort Defense (RMTD). A complaint was filed against CMH, MPERA and the State on September 13, 2011 and served on the Office of the Attorney General on October 4, 2011. The complaint alleged that MPERA and the State negligently breached their duties to administer and manage PERS. Plaintiffs sought damages for past and future economic damages, emotional distress, costs and disbursements. RMTD

and Maxon Davis, Esq., Davis, Hatley, Haffeman & Tighe, P.C., also of Great Falls, defended the State and MPERA. Following discovery and mediation proceedings, the matter was settled between the parties on January 28, 2014. MPERA's portion of the settlement was $700,000 and was paid through the state's self-insurance reserve fund, not the PERS trust fund. The premium RMTD charges MPERA likely increased. However, the settlement had no material, adverse effect on PERS' financial position as a whole.

Wrzesien v. State. Three members of PERS who elected to participate in either the PERS Defined Contribution Retirement Plan or the University System's Optional Retirement Program (now known as the Montana University System Retirement Program (MUS-RP)) have sued the State of Montana and MPERA over the PERS plan choice rate. The complaint alleges equal protection and due process violations, and requests issuance of a declaratory judgment granting plaintiffs the employer contributions paid toward the plan choice rate. Class action certification is also requested. The plaintiffs are represented by Travis Dye of Kalkstein, Johnson & Dye in Missoula, Montana. The State and MPERA are represented by J. Stuart Segrest and Michael G. Black of the Montana Attorney General's Office. The complaint was subsequently amended to include the 1% in employer contributions for DCRP plan members that, pursuant to HB 454 (2013), go to the PERS defined benefit retirement plan starting July 1, 2013. In the event plaintiffs prevail, and class action certification is granted, over 3,000 PERS DCRP and MUS-RP participants will be paid the contributions previously directed to the plan choice rate. At June 30, 2014, MPERA calculated the contributions from the MUS-RP Plan Choice at $5,083,250 and the contributions from the DCRP Plan Choice at $21,005,539.

Association of Montana Retired Public Employees (AMRPE) v. State. Four Public Employees' Retirement System (PERS) retired members and their retiree association (AMRPE) have sued the State of Montana, MPERA, the PERB and Governor Bullock over the reduction of the PERS guaranteed annual benefit adjustment (GABA) enacted by the 2013 Montana Legislature through HB 454. Plaintiffs are represented by Leo Berry, Chad E. Adams and Jessie L. Luther from Browning, Kaleczyc, Berry & Hoven P.C., in Helena, MT. The State, MPERA, PERB and Governor Bullock are represented by J. Stuart Segrest and Michael G. Black of the Montana Attorney General's Office. In November 2014, MPERA's actuary determined that if plaintiffs prevail and the GABA remains at 3%, PERS' funding ratio would be 74.4% as opposed to 83.9% should plaintiffs be unsuccessful. Similarly, if Plaintiffs prevail, PERS would amortize over 29.3 years as opposed to 10.5 years under HB 454 (2013). Plaintiffs moved for and, following briefing and oral argument, received a Preliminary Injunction blocking implementation of the GABA decrease pending resolution of the underlying lawsuit. Following discovery, both parties moved for summary judgment. The motions have been fully briefed and a hearing on the cross-motions for summary judgment is set for January 13, 2015.

C. Plan Membership, Descriptions And Contribution Information

The plans are established and amended statutorily by the Legislature. In all defined benefit plans (except VFCA), if a member leaves covered employment before retirement, the member contributions plus accrued interest (accumulated contributions) may be refunded to the member. If a member returns to service and repays the withdrawn accumulated contributions plus the interest the accumulated contributions would have earned had they remained on deposit, membership service is restored. Membership in each plan as of June 30, 2014 and June 30, 2013 is detailed in the following charts.

PERS-DBRP Membership

	2014	2013		2014	2013
Number of participating employers	541	540			
Active plan members	28,229	28,401	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	19,473	18,868
Vested	2,825	2,686	Disability Retirements	193	185
Non-vested	7,666	6,712	Survivor Benefits	415	398
	10,491	9,398		20,081	19,451

JRS Membership

	2014	2013		2014	2013
Number of participating employers	1	1			
Active plan members	55	54	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	64	62
Vested	1	-	Disability Retirements	-	-
Non-vested	-	-	Survivor Benefits	3	3
	1	-		67	65

HPORS Membership	2014	2013		2014	2013
Number of participating employers	1	1			
Active plan members	229	219	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	299	285
Vested	11	14	Disability Retirements	8	9
Non-vested	14	11	Survivor Benefits	15	16
	25	25		322	310

SRS Membership	2014	2013		2014	2013
Number of participating employers	57	57			
Active plan members	1,307	1,276	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	478	447
Vested	73	67	Disability Retirements	35	36
Non-vested	288	235	Survivor Benefits	20	20
	361	302		533	503

GWPORS Membership	2014	2013		2014	2013
Number of participating employers	7	7			
Active plan members	955	971	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	193	170
Vested	87	69	Disability Retirements	2	2
Non-vested	175	148	Survivor Benefits	8	8
	262	217		203	180

MPORS Membership					
	2014	2013		2014	2013
Number of participating employers	32	31			
Active plan members	743	734	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	666	661
Vested	55	52	Disability Retirements	21	20
Non-vested	90	77	Survivor Benefits	29	29
	145	129		716	710

FURS Membership					
	2014	2013		2014	2013
Number of participating employers	25	25			
Active plan members	616	610	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	565	558
Vested	19	15	Disability Retirements	10	8
Non-vested	66	63	Survivor Benefits	20	21
	85	78		595	587

VFCA Membership					
	2014	2013		2014	2013
Number of participating employers	217	217			
Active plan members	1,935	2,101	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	1,332	1,285
Vested	939	884	Disability Retirements	-	-
			Survivor Benefits	-	-
				1,332	1,285

PERS-DCRP Membership	2014	2013		2014	2013
Number of participating employers	264	263			
Active plan members	2,188	2,087	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Periodic Distributions	18	14
Vested	252	207	Disability Retirements	4	4
Non-vested	474	434	Survivor Benefits	7	2
	726	641		29	20

Deferred Compensation (457) Membership	2014	2013		2014	2013
Number of participating employers	36*	31*	Number of participating plan members	8,519	8,215
Number of participating employers that provide contributions on members' behalf	6	4	Number of participating plan members that are actively contributing to their deferred compensation accounts	4,699	4,514

*All State agencies are counted as one employer.

Public Employees' Retirement System-DBRP (PERS-DBRP)

Plan Description: The PERS-Defined Benefit Retirement Plan (DBRP) is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the defined benefit and defined contribution retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contribution will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows.

PERS-DBRP Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months;
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit
Service retirement:

Hired prior to July 1, 2011:	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
Hired on or after July 1, 2011:	Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011:	Age 55, 5 years of membership service.

PERS-DBRP Summary of Benefits (continued)

Vesting 5 years of membership service

Monthly benefit formula
Members hired prior to July 1, 2011:
Less than 25 years of membership service: 1.785% of HAC per year of service credit;
25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:
Less than 10 years of membership service: 1.5% of HAC per year of service credit;
10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)*
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007 (discontinued effective July 1, 2013)
- 1.5% for members hired on or after July 1, 2007 (discontinued effective July 1, 2013)

GABA revision for all members
Effective July 1, 2013, includes all active, inactive, and retired members.

- Maximum rate for GABA is 1.5%; minimum rate for GABA is 0%
- The 1.5% GABA is reduced 0.1% for each 2% PERS is funded below 90%
- GABA is 0% whenever PERS amortization period is 40 years or more.

* At this time as a result of preliminary injunction issued in the *AMRPE vs State litigation, the GABA benefit in effect is being used in the calculation until the litigation is resolved.*

At June 30, 2014 PERS had 541 participating employers, one more than fiscal year 2013. The participating employers consist of:

PERS-DBRP EMPLOYERS

Employers	June 30, 2014	June 30, 2013
State Agencies	34	34
Counties	55	55
Cities and Towns	98	99
Colleges and Universities	5	5
School Districts	232	231
High Schools	6	6
Other Agencies	111	110
Total	541	540

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2014 was 7.9% of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a request for retirement or refund is processed.

The 7.9% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates. There will be no change to the member contributions on January 1, 2015 due to the amortization period being 29.3 years at June 30, 2014, based on the 3% GABA rate.

Each state agency and university system employer contributed 8.17% of PERS-covered payroll during fiscal year 2014. Participating local governments contributed 8.07% of PERS-covered payroll during fiscal year 2014. The State contributed the remaining 0.1% for local governments. Participating school districts contributed 7.8% of PERS-covered payroll during fiscal year 2014. The state contributed the remaining 0.37%. A percentage of the employers' contributions is used to fund the employee education program.

Following the 2013 Legislative Session, PERS employer contributions temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and member contribution rates. On January 1, 2015, the additional contributions will not be terminated. (Reference Schedule of Contribution Rates).

Effective July 1, 2013, PERS-DBRP received other contributions including 1% of DCRP and MUS-RP employer contributions for participants, additional Plan Choice Rate contributions, and additional contributions from the coal severance tax fund and interest income from the coal severance tax permanent fund. The coal severance taxes collected are credited to the general fund of the State of Montana and are statutorily appropriated on July 1 each year to the trust fund for the PERS-DBRP. The coal tax is transferred quarterly and the interest income is credited monthly. The amount received for fiscal year 2014 was $33.7 million. They are recorded as *Miscellaneous Revenue* in the financial statements.

Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

PERS-DBRP Active Membership by Employer Type

Employer Type	6/30/2014	6/30/2013
State Agencies	10,734	10,729
Counties	5,299	5,290
Cities	3,223	3,277
Universities	2,628	2,658
High Schools	60	62
School Districts	5,151	5,209
Other Agencies	1,134	1,176
Total	28,229	28,401

Plan Membership Elections: MPERA has included in the financial statements transfers of $1,027,622 in Transfers to DCRP and $173,691 in Transfers to MUS-RP These transfers reflect the DCRP and MUS-RP contributions of participants that filed elections at or near the June 30 cutoff date. The contributions were transferred in early fiscal year 2015.

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state and university system employees who are eligible for a service retirement and whose positions have been eliminated due to a reduction in force, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the PERB on the unpaid balance. The employees participating under section 19-2-706, MCA increased from 221 in fiscal year 2013 to 223 in fiscal year 2014. The contributions received (including interest) during fiscal year 2014 totaled $63,671. The outstanding balance at June 30, 2014, totaled $20,714.

Public Employees' Retirement System-DBRP Education Fund: Education is provided to all members of the PERS regardless of plan choice as governed by section 19-3-112, MCA. The education must be presented with impartial and balanced information about plan choices, investments and retirement planning.

The education program consists of ongoing transfer education for new members and investment/retirement planning education for all active members.

The education program was funded by 0.04% of PERS-covered payroll in fiscal year 2014.

GASB Statement No. 67 Reporting: The membership data, actuarial assumptions and plan provisions are the same as were described in the June 30, 2013 Actuarial Valuation Report for PERS-DBRP, except that it has been assumed that the rate of investment return is net only of investment expenses, rather than net of both investment and administrative expenses. The administrative expense rate is assumed to be 0.27% of active member payroll.

The discount rate as of June 30, 2014 is 7.75% which is the assumed long-term expected rate of return on PERS-DBRP investments. Projections of the fiduciary net position have indicated that it is expected to be sufficient to make projected benefit payments for current members.

The Total Pension Liability (TPL) at the beginning of the measurement year is measured as a valuation date of June 30, 2013. The TPL at June 30, 2013 is the same as was reported for actuarial valuation purposes as of June 30, 2013. The TPL at the end of the measurement year, June 30, 2014, is measured as of a valuation date of June 30, 2013 and projected to June 30, 2014. In future years, both the beginning and end of year TPL will be measured as of a valuation date one year prior to and projected to the appropriate date. There were no significant events during the projection period.

During the measurement year there were no changes in benefits or changes in assumptions. Because the beginning and end of year TPL are both based on the same actuarial valuation, there are no differences between expected and actual experience reported

this year. Total contributions and investment income exceeded the service cost, interest cost, and administrative expenses, resulting in a decrease in the Net Pension Liability (NPL) of $357.4 million. The NPL remaining as of June 30, 2014 is $1.2 billion.

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL can be very significant for a relatively small change in the discount rate. At June 30, 2014, the TPL using the current discount rate of 7.75% is $6.2 billion. A 1.00% decrease in the discount rate increases the TPL to $6.9 billion (11.9%) and increases the NPL to $2.0 billion (59.1%). A 1.00% increase in the discount rate decreases the TPL to $5.6 billion (10.0%) and decreases the NPL to $625 million (49.8%).

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2014, the statutory contribution rates are sufficient to amortize the unfunded actuarial liability.

With the enactment of HB 454 during the 2013 Legislative Session and the changes resulting from the preliminary injuction issued December 2013 regarding the GABA provision, there were two valuations performed for both fiscal year 2013 and fiscal year 2014.

HB 454 lowered the GABA rate for all members including retirees to a maximum of 1.5%. As a result, the fiscal year 2013 valuation was performed using a 1.5% GABA. The preliminary injunction restored the GABA rate to 3% for members hired prior to July 1, 2007 and 1.5% for members hired on or after July 1, 2007 until the lawsuit is settled, therefore, the fiscal year 2014 valuation was performed using the 3% GABA. Each year a supplemental valuation was performed for the other GABA rate, with the 2013 supplemental using the 3% GABA and the 2014 supplemental using the 1.5% GABA.

When comparing the valuations on June 30, 2014 and June 30, 2013 the years to amortize the unfunded actuarial liability is 29.3 years (3% GABA) and 14.5 years (1.5% GABA), respectively. When comparing the supplemental valuations on June 30, 2014 and June 30, 2013 the years to amortize the unfunded actuarial liability is 10.5 years (1.5% GABA) and 43.7 years (3% GABA), respectively.

Under the provisions of HB 454, the additional member and employer contributions, effective July 1, 2013, will remain in effect on January 1, 2015.

During the fiscal year ended June 30, 2014, the PERS assets gained 17.12% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 13.21%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $224 million.

Public Employees' Retirement System-DCRP Disability OPEB (DC Disability OPEB)

Plan Description: For GASB Statement No. 43, *Financial Reporting by Employers for Post-Employment Benefits Other Than Pension Plans* reporting, the DC Disability OPEB is considered a cost-sharing multiple-employer plan that provides an other post-employment defined benefit for the PERS-DCRP members.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the defined benefit and defined contribution retirement plans. The PERS-DCRP provides disability to eligible members who elect the PERS-DCRP.

The DC Disability OPEB Trust Fund was established on July 1, 2002, and is governed by section 19-3-2141, MCA. Benefits of this long-term disability plan are established by state law and can only be amended by the Legislature. This benefit is based on eligibility, years of service, and compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows.

PERS-DCRP Disability OPEB Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 - HAC during the highest 36 consecutive months.
Hired on or after July 1, 2011 - HAC during the highest 60 consecutive months.

Eligibility for benefit
Age 65, 5 years of membership service;
Any age with 5 years of membership service.

Vesting 5 years of membership service

Monthly benefit formula
Members hired prior to July 1, 2011:
Less than 25 years of membership service: 1.785% of HAC per year of service credit;
25 years of membership service or more: 2% of HAC per year of service credit.
Benefit is payable to later of age 65 for disabilities occurring prior to age 60, or five years for disabilties occuring after age 65.

Members hired on or after July 1, 2011:
Less than 10 years of membership service: 1.5% of HAC per year of service credit;
10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
30 years or more of membership service: 2% of HAC per year of service credit.
Benefit is payable to age 70 for disabilities occurring prior to age 65, or five years for disabilities occurring after age 65.

PERS-DCRP Disability OPEB Summary of Benefits (continued)

Members cannot receive distributions from their individual defined contribution account while receiving payments from the DC Disability OPEB Trust Fund. Participants may choose to receive a distribution from their individual account instead of applying for or receiving a disability benefit.

Contributions: Under section 19-3-2117, MCA the employers are the only contributors to the DC Disability OPEB. The employer contribution rate is 0.30% of a member's compensation, which is allocated to the long-term disability plan trust fund to provide disability benefits to eligible members. (Reference Schedule of Contribution Rates).

As of June 30, 2014, there are four members taking advantage of the disability plan, the same as of June 30, 2013.

Below is a table with the active membership by employer type as of June 30, 2013. This data was used in the June 30, 2013 actuarial valuation of the DC Disability OPEB.

PERS-DCRP Active Membership by Employer Type

Employer Type	6/30/2013
State Agencies	957
Counties	332
Cities	274
Universities	123
High Schools	3
School Districts	237
Other Agencies	161
Total	2,087

Funding Policy: The following estimates were prepared based on an actuarial valuation as of June 30, 2013. This is the first valuation performed on this plan.

GASB Statement No. 43 requires the PERB to report each year the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The present statutory contribution rates are not sufficient to amortize the unfunded liability. Thus the plan does not amortize within 30 years.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and plan members and includes the type of benefits provided at the time of each valuation and the historical pattern of costs to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in the actuarial accrued liablities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Given insufficient DCRP member experience, the

actuarial assumptions used were based on those used for the PERS-DBRP members, except for the assumed investment return. Since the assets are invested entirely in short-term fixed income securities, the assumed rate of return of 3.50% was used. This assumed rate of return is 0.50% in excess of the assumed rate of inflation.

In the June 30, 2013 actuarial valuation, the entry age normal funding method is used. The unfunded actuarial liability is amortized using an open 30-year period, level percent of pay, an investment rate of return of 3.50%, and general wage growth of 4.00% which includes inflation at 3.00% and merit salary increases of 0.00% to 6.00%.

Funded Status and Funding Progress: The Schedule of Funding Progress for DC Disability OPEB, presented as RSI following the notes to the statements, presents information concerning the actuarial value of plan assets and liabilities. The most recent actuarial valuation available was completed by Cheiron, the PERB's actuary, as of June 30, 2013 for the fiscal year ending June 30, 2013. This actuarial valuation is completed every two years with the next valuation to be completed as of June 30, 2015 for fiscal year ending June 30, 2015.

The allocation of the DC Disability OPEB as of the fiscal year ending June 30, 2013 was as follows: Actuarial Liability (AL) is $2,715,033; Actuarial Value of Assets is $2,184,488; Unfunded Actuarial Liability (UAL) is $530,545; Funded Ratio (Actuarial Value of Assets/AL) is 80.5%; Covered Payroll (Active Plan Members) is $90,450,420; and the UAL as a Percentage of Covered Payroll is 1%.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2013, the most recent actuarial valuation, the statutory contribution rates are not sufficient to amortize the unfunded actuarial liability. During the year ended June 30, 2013, the DC Disability OPEB assets gained 0.25% on a market value basis. This return was below the assumed rate of return of 3.50%. Because this is the first valuation for DC Disability OPEB, the actuarial value of assets is set equal to the market value of assets. As of the June 30, 2013 Actuarial Valuation, the DC Disability OPEB unfunded actuarial liability was $0.5 million and the funded ratio was 80.5%.

GASB Statement No. 67 Reporting does not pertain to the disability benefit plan trust fund.

Judges' Retirement System (JRS)

Plan Description: The JRS is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5 of the MCA. This system provides benefits for all Montana judges of the district courts, justices of the Supreme Court, the Chief Water Judge and the Associate Water Judge. Benefits are established by state law and can only be amended by the Legislature. The JRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows.

JRS Summary of Benefits

Member's current salary[1] or highest average compensation (HAC)[2]
[1]Hired prior to July 1, 1997 and non-GABA - monthly compensation at time of retirement;
[2]Hired on or after July 1, 1997 or electing GABA - HAC during any consecutive 36 months.
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as part of a members' highest average compensation.

Eligibility for benefit
Age 60, 5 years of membership service;
Any age with 5 years of membership service - involuntary termination, actuarially reduced.

Vesting 5 years of membership service

Monthly benefit formula
3-1/3% of current salary[1] (non-GABA) or HAC[2] (GABA) per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
If hired prior to July 1, 1997 and member did not elect GABA - current salary of an active member in same position is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.

At June 30, 2014 JRS had one participating employer, the same as fiscal year 2013. The participating employer consists of:

JRS EMPLOYERS

Employer	June 30, 2014	June 30, 2013
State Agency - Supreme Court	1	1
Total	1	1

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2014 was 7.0% of the member's monthly compensation. Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

As the employer, the State contributed 25.81% of the total JRS-covered payroll to

the retirement plan during fiscal year 2014. (Reference Schedule of Contribution Rates).

JRS Active Membership by Employee Type		
Employee Type	6/30/2014	6/30/2013
GABA	48	39
Non-GABA	7	15
Total	55	54

GASB Statement No. 67 Reporting: The membership data, actuarial assumptions and plan provisions are the same as were described in the June 30, 2013 Actuarial Valuation Report for JRS, except that it has been assumed that the rate of investment return is net only of investment expenses, rather than net of both investment and administrative expenses. The administrative expense rate is assumed to be 0.15% of active member payroll.

The discount rate as of June 30, 2014 is 7.75% which is the assumed long-term expected rate of return on JRS investments. Projections of the fiduciary net position have indicated that it is expected to be sufficient to make projected benefit payments for current members.

The Total Pension Liability (TPL) at the beginning of the measurement year is measured as a valuation date of June 30, 2013. The TPL at June 30, 2013 is the same as was reported for actuarial valuation purposes as of June 30, 2013. The TPL at the end of the measurement year, June 30, 2014, is measured as of a valuation date of June 30, 2013 and projected to June 30, 2014. In future years, both the beginning and end of year TPL will be measured as of a valuation date one year prior to and projected to the appropriate date. There were no significant events during the projection period.

During the measurement year there were no changes in benefits or changes in assumptions. Because the beginning and end of year TPL are both based on the same actuarial valuation, there are no differences between expected and actual experience reported this year. Since the JRS Fiduciary Net Position is greater than the JRS TPL the result is a Net Pension Asset (NPA) and not a NPL. Total contributions and investment income exceeded the service cost, interest cost, and administrative expenses, resulting in a decrease in the Net Pension Asset (NPA) of $9.0 million. The NPA remaining as of June 30, 2014 is $32.6 million.

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL or NPA can be very significant for a relatively small change in the discount rate. At June 30, 2014, the TPL using the current discount rate of 7.75% is $51.6 million. A 1.00% decrease in the discount rate increases the TPL to $56.6 million (9.6%) and decreases the NPA to $27.6 million (15.2%). A 1.00% increase in the discount rate decreases the TPL to $47.3 million (8.3%) and increases the NPA to $36.9 million (13.1%).

Actuarial status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2014, the statutory contribution rates are sufficient to amortize the unfunded actuarial liability. During the fiscal year ended June 30, 2014, the JRS' assets gained 17.03% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion

of the gains and losses, the return on the actuarial asset value continues to reflect prior year investment gains and losses resulting in a return of 12.92%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $3.6 million.

Highway Patrol Officers' Retirement System (HPORS)

Plan Description: The HPORS is a single-employer, defined benefit plan established July 1, 1945, and governed by Title 19, chapters 2 & 6 of the MCA. This system provides retirement benefits to all members of the Montana Highway Patrol, including supervisory personnel. Benefits are established by state law and can only be amended by the Legislature. The HPORS provides retirement, disability, and death benefits to plan members and their statutory beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights for death and disability are vested immediately. All other rights are vested after five or 10 years of service. A brief summary of eligibility and benefits follows.

HPORS Summary of Benefits

Member's highest average compensation (HAC)
Highest average compensation during any consecutive 36 months.
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Hired prior to July 1, 2013 - 5 years of membership service, actuarially reduced from age 60.
Hired on or after July 1, 2013 - 10 years of membership service, actuarially reduced from age 60.

Vesting Hired prior to July 1, 2013 - 5 years of membership service
Hired on after July 1, 2013 - 10 years of membership service

Monthly benefit formula
Retire prior to July 1, 2013 - 2.5% of HAC per year of service credit.
Retire on or after July 1, 2013 - 2.6% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Hired on or after July 1, 2013 - after the member has completed 36 full months of retirement, the member's benefit increases by a maximum of 1.5% each January, inclusive of all other adjustments to the member's benefit.

HPORS Summary of Benefits (continued)

Minimum benefit adjustment (non-GABA)
If hired prior to July 1, 1997 and member did not elect GABA - monthly benefits are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.

At June 30, 2014 HPORS had one participating employer, the same as fiscal year 2013. The participating employer consists of:

HPORS EMPLOYERS

Employer	June 30, 2014	June 30, 2013
State Agency - Department of Justice	1	1
Total	1	1

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2014 is 10.05% of the member's total compensation if hired on or after July 1, 1997 or for members electing GABA, and 10.0% for those members hired prior to July 1, 1997 and not electing GABA (all active members hired prior to July 1, 1997 have elected GABA).

Effective July 1, 2013 and ending July 1, 2016, all HPORS member contributions, regardless of hire date, will increase 1.0% annually.

Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

As the employer, the State contributed 38.33% of the total HPORS-covered payroll during fiscal year 2014. The first 28.15%, an increase of 2% from 26.15% in fiscal year 2013, is payable from the same source used to pay members' compensation. The remaining amount, equal to 10.18%, is payable from the general fund through a statutory appropriation.

Effective July 1, 2013, the State employer contributions increased from 36.33% to 38.33%. (Reference Schedule of Contribution Rates).

HPORS Active Membership
by Employee Type

Employee Type	6/30/2014	6/30/2013
GABA	229	219
Non-GABA	0	0
Total	229	219

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to

three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the PERB on the unpaid balance. No employees have taken advantage of this provision to date.

Supplemental Benefit for Retirees: Section 19-6-709, MCA provides eligible Montana highway patrol officers retired prior to July 1, 1991, or their survivors, an annual supplemental lump-sum payment distributed each September. This lump-sum payment is funded by a statutory appropriation requested by the PERB from the general fund. Factors impacting eligibility include the number of years the recipient has received a service retirement benefit or disability benefit, the recipient's age, and whether the recipient is employed in a position covered by a retirement system under Title 19. The average annual supplemental payment for non-GABA retirees was $2,843 in September 2014.

GASB Statement No. 67 Reporting: The membership data, actuarial assumptions and plan provision are the same as were described in the June 30, 2013 Actuarial Valuation Report for HPORS, except that it has been assumed that the rate of investment return is net only of investment expenses, rather than net of both investment and administrative expenses. The administrative expense rate is assumed to be 0.23% of active member payroll.

The discount rate as of June 30, 2014 is 7.75% which is the assumed long-term expected rate of return on HPORS investments. Projections of the fiduciary net position have indicated that it is expected to be sufficient to make projected benefit payments for current members.

The Total Pension Liability (TPL) at the beginning of the measurement year is measured as a valuation date of June 30, 2013. The TPL at June 30, 2013 is the same as was reported for actuarial valuation purposes as of June 30, 2013. The TPL at the end of the measurement year, June 30, 2014, is measured as of a valuation date of June 30, 2013 and projected to June 30, 2014. In future years, both the beginning and end of year TPL will be measured as of a valuation date one year prior to and projected to the appropriate date. There were no significant events during the projection period.

During the measurement year there were no changes in benefits or changes in assumptions. Because the beginning and end of year TPL are both based on the same acturial valuation, there are no differences between expected and actual experience reported this year. Total contributions and investment income exceeded the service cost, interest cost, and administrative expenses, resulting in a decrease in the Net Pension Liability (NPL) of $8.8 million. The NPL remaining as of June 30, 2014 is $57.1 million.

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL can be very significant for a relatively small change in the discount rate. At June 30, 2014, the TPL using the current discount rate of 7.75% is $183.1 million. A 1.00% decrease in the discount rate increases the TPL to $208.3 million (13.8%) and increases the NPL to $82.3 million (44.1%). A 1.00% increase in the discount rate decreases the TPL to $162.6 million (11.2%) and decreases the NPL to $36.6 million (36.0%).

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2014, the HPORS amortizes in 30.3 years. During the fiscal year ended June 30, 2014, the HPORS' assets gained 17.10% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 13.13%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $5.6 million.

Sheriffs' Retirement System (SRS)

Plan Description: The SRS is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows.

SRS Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months.
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as a part of a member's highest average compensation.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Age 50, 5 years of membership service, actuarially reduced.

Vesting 5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

At June 30, 2014 SRS had 57 participating employers, the same as fiscal year 2013. The participating employers consist of:

SRS EMPLOYERS		
Employers	June 30, 2014	June 30, 2013
State Agencies - Department of Justice	1	1
Counties	56	56
Total	57	57

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2014 was 9.245% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

The employer contribution rate for fiscal year 2014 was 10.115%. (Reference Schedule of Contribution Rates).

Effective July 1, 2013, employer contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

SRS Active Membership by Employer Type		
Employer Type	6/30/2014	6/30/2013
Dept of Justice	61	59
Counties	1,246	1,217
Total	1,307	1,276

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarial rate of return as established by the PERB on the unpaid balance. Three employees have taken advantage of this provision to date.

GASB Statement No. 67 Reporting: The membership data, actuarial assumptions and plan provision are the same as were described in the June 30, 2013 Actuarial Valuation Report for SRS, except that it has been assumed that the rate of investment return is net only of investment expenses, rather than net of both investment and administrative expenses. The administrative expense rate is assumed to be 0.17% of active member payroll.

The discount rate as of June 30, 2014 is 7.75%, which is the assumed long-term expected rate of return on SRS investments. Projections of the fiduciary net position have indicated that it is expected to be sufficient to make projected benefit payments for current members.

The Total Pension Liability (TPL) at the beginning of the measurement year is measured as a valuation date of June 30, 2013.

The TPL at June 30, 2013 is the same as was reported for actuarial valuation purposes as of June 30, 2013, except for the adjustment in discount rate from 7.75% to 6.68%. The TPL at the end of the measurement year, June 30, 2014, is measured as of a valuation date of June 30, 2013 and projected to June 30, 2014. In future years, both the beginning and end of year TPL will be measured as of a valuation date one year prior to and projected to the appropriate date. There were no significant events during the projection period.

During the measurement year there were no changes in benefits or changes in demographic assumptions. There was an increase in the discount rate resulting in a decrease in the liability. Because the beginning and end of year TPL are both based on the same actuarial valuation, there are no differences between expected and actual experience reported this year. Total contributions and investment income exceeded the service cost, interest cost, and administrative expenses, as well as an increase in the discount rate, resulting in a decrease in the Net Pension Liability (NPL) of $65.2 million. The NPL remaining as of June 30, 2014 is $41.6 million.

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL can be very significant for a relatively small change in the discount rate. At June 30, 2014, the TPL using the current discount rate of 7.75% is $326.3 million. A 1.00% decrease in the discount rate increases the TPL to $372.2 million (14.1%) and increases the NPL to $87.6 million (110.5%). A 1.00% increase in the discount rate decreases the TPL to $288.3 million (11.6%) and decreases the NPL to $3.7 million (91.2%).

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2014, the statutory contribution rates are not sufficient to amortize the unfunded actuarial liability. During the fiscal year ending June 30, 2014, the SRS' assets gained 17.08% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 12.96%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $12.2 million.

Game Wardens' and Peace Officers' Retirement System (GWPORS)

Plan Description: The GWPORS is a multiple-employer, cost-sharing defined benefit plan established in 1963 and governed by Title 19, chapters 2 & 8, MCA. This system provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are established by state law and can only be amended by the Legislature. The GWPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows.

GWPORS Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 - highest average compensation during any consecutive 60 months.
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as a part of a member's highest average compensation.

Eligibility for benefit
Age 50, 20 years of membership service.

Early Retirement (reduced benefit)
Age 55, vested members who terminate employment prior to 20 years of membership service.

Vesting 5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

At June 30, 2014 GWPORS had seven participating employers, the same as fiscal year 2013. The participating employers consist of:

GWPORS EMPLOYERS

Employers	June 30, 2014	June 30, 2013
State Agencies	4	4
Colleges and Universities	3	3
Total	7	7

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2014 was 10.56% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

Each state agency and university employer contributed 9.0% of total GWPORS-covered payroll to the retirement plan during fiscal year 2014. (Reference Schedule of Contribution Rates).

GWPORS Active Membership by Employer

Employer	6/30/2014	6/30/2013
Dept of Corrections	698	718
Dept FW&P	101	103
Dept of Livestock	38	33
Dept of Transport.	75	78
Universities	43	39
Total	955	971

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the PERB on the unpaid balance. No employees have taken advantage of this provision to date.

GASB Statement No. 67 Reporting: The membership data, actuarial assumptions and plan provision are the same as were described in the June 30, 2013 Actuarial Valuation Report for GWPORS, except that it has been assumed that the rate of investment return is net only of investment expenses, rather than net of both investment and administrative expenses. The administrative expense rate is assumed to be 0.17% of active member payroll.

The discount rate as of June 30, 2014 is 7.75%, which is the assumed long-term expected rate of return on GWPORS investments. Projections of the fiduciary net position have indicated that it is expected to be sufficient to make projected benefit payments for current members.

The Total Pension Liability (TPL) at the beginning of the measurement year is measured as a valuation date of June 30, 2013. The TPL at June 30, 2013 is the same as was reported for actuarial valuation purposes as of June 30, 2013. The TPL at the end of the measurement year, June 30, 2014, is measured as of a valuation date of June 30, 2013 and projected to June 30, 2014. In future years, both the beginning and end of year TPL will be measured as of a valuation date one year prior to and projected to the appropriate date. There were no significant events during the projection period.

During the measurement year there were no changes in benefits or changes in assumptions. Because the beginning and end of year TPL are both based on the same acturial valuation, there are no differences between expected and actual experience reported this year. Total contributions and investment income exceeded the service cost, interest cost, and administrative expenses, resulting in a decrease in the Net Pension Liability (NPL) of $9.0 million. The NPL remaining as of June 30, 2014 is $15.1 million.

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL can be very significant for a relatively small change in the discount rate. At June 30, 2014, the TPL using the current discount rate of 7.75% is $153.9 million. A 1.00% decrease in the discount rate increases the TPL to $177.7 million (15.5%) and increases the NPL to $39.0 million (157.7%). A 1.00% increase in the discount rate decreases the TPL to $134.3 million (12.7%) and decreases the NPL to a negative $4.4 million (129.4%).

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2014, the statutory contribution rates are not sufficient to amortize the unfunded actuarial liability. During the fiscal year ending June 30, 2014, the GWPORS' assets gained 16.97% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 12.62%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $5.5 million.

Municipal Police Officers' Retirement System (MPORS)

Plan Description: The MPORS is a multiple-employer, cost-sharing defined benefit plan established in 1974 and is governed by Title 19, chapters 2 & 9 of the MCA. This plan covers all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability, and death benefits to plan members and their statutory beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights for death and disability are vested immediately. All other rights are vested after five years of service. A brief summary of eligibility and benefits follows at the top of the next page.

MPORS Summary of Benefits

Member's final average compensation (FAC)
Hired prior to July 1, 1977 - average monthly compensation of final year of service;
Hired on or after July 1, 1977 - final average compensation (FAC) for last consecutive 36 months.
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as a part of a member's final average compensation.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Age 50, 5 years of membership service.

Vesting 5 years of membership service

Monthly benefit formula
2.5% of FAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997 and member did not elect GABA - the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed officer in the city where the member was last employed.

At June 30, 2014 MPORS had 32 participating employers, one more than fiscal year 2013. The participating employers consist of:

MPORS EMPLOYERS

Employers	June 30, 2014	June 30, 2013
Cities	32	31
Total	32	31

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. Member contribution rates are dependent upon date of hire as a police officer. For fiscal year 2014, member contributions as a percentage of salary are 7.0% if employed after June 30, 1975 and prior to July 1, 1979; 8.5% if employed after June 30, 1979 and prior to July 1, 1997; and 9.0% if employed

on or after July 1, 1997 and for members electing GABA. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

Each employer contributed 14.41% of total MPORS-covered payroll to the retirement plan during fiscal year 2014.

The State contributed 29.37% of total compensation for all covered police officers in fiscal year 2014. The State contributions are requested at the beginning of the fiscal year based on the previous fiscal year compensation and are due no later than November 1. (Reference Schedule of Contribution Rates).

MPORS Active Membership by Employee Type

Employee Type	6/30/2014	6/30/2013
GABA	736	727
Non-GABA	7	7
Total	743	734

Deferred Retirement Option Plan (DROP): Beginning July 2002, eligible members of MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, chapter 9, part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. As of June 30, 2014, there are 47 DROP participants. Since program inception, a total of 115 members have participated in the DROP. The balance of the DROP accounts is $6.7 million.

DROP Participation

	6/30/2014	6/30/2013
Participants Beginning of Year	38	37
Participants Added	14	8
Completed DROP	5	7
Participants End of Year	47	38
DROP Distributions	$468,766	$1,176,526

GASB Statement No. 67 Reporting: The membership data, actuarial assumptions and plan provision are the same as were described in the June 30, 2013 Actuarial Valuation Report for MPORS, except that it has been assumed that the rate of investment return is net only of investment expenses, rather than net of both investment and administrative expenses. The administrative expense rate is assumed to be 0.20% of active member payroll.

The discount rate as of June 30, 2014 is 7.75%, which is the assumed long-term expected rate of return on MPORS investments. Projections of the fiduciary net position have indicated that it is expected to be sufficient to make projected benefit payments for current members.

The Total Pension Liability (TPL) at the beginning of the measurement year is measured as a valuation date of June 30, 2013. The TPL at June 30, 2013 is the same as was reported for actuarial valuation purposes as of June 30, 2013. The TPL at the end of the measurement year, June 30, 2014, is measured as of a valuation date of June 30, 2013 and projected to June 30, 2014. In future years, both the beginning and end of year TPL will be measured as of a valuation date one year prior to and projected to the appropriate date. There were no significant events during the projection period.

During the measurement year there were no changes in benefits or changes in assumptions. Because the beginning and end of year TPL are both based on the same acturial valuation, there are no differences between expected and actual experience reported this year. Total contributions and investment income exceeded the service cost, interest cost, and administrative expenses, resulting in a decrease in the Net Pension Liability (NPL) of $21.9 million. The NPL remaining as of June 30, 2014 is $157.1 million.

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL can be very significant for a relatively small change in the discount rate. At June 30, 2014, the TPL using the current discount rate of 7.75% is $476.3 million. A 1.00% decrease in the discount rate increases the TPL to $545.7 million (14.6%) and increases the NPL to $226.6 million (44.2%). A 1.00% increase in the discount rate decreases the TPL to $421.2 million (11.6%) and decreases the NPL to $102.0 million (35.1%).

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2014, the MPORS amortizes in 19.6 years. During the fiscal year ended June 30, 2014, the MPORS' assets gained 16.53% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 12.46%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $12.5 million.

Firefighters' Unified Retirement System (FURS)

Plan Description: The FURS is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This system provides retirement benefits to firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard (MANG) on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement,

disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation. Member rights for death and disability are vested immediately. All other member rights are vested after five years of service. A brief summary of eligibility and benefits follows.

FURS Summary of Benefits

Member's compensation
Hired prior to July 1, 1981 and not electing GABA - highest monthly compensation (HMC);
Hired on or after July 1, 1981 and those electing GABA - highest average compensation (HAC) during any consecutive 36 months.
Hired on or after July 1, 2013 - 110% annual cap on compensation considered as a part of a member's highest average compensation.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Age 50, 5 years of membership service.

Vesting 5 years of membership service

Monthly benefit formula
1) Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of:
   2.5% of HMC per year of service; OR
   i) if less than 20 years of service -
      2% of HMC for each year of service;
   ii) if more than 20 years of service -
      50% of the member's HMC plus 2% of the member's HMC for each year of service over 20 years
2) Members hired on or after July 1, 1981 and those electing GABA:
   2.5% of HAC per year of service.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least ten years of membership service).

At June 30, 2014 FURS had 25 participating employers, same as fiscal year 2013. The participating employers consist of:

FURS EMPLOYERS

Employers	June 30, 2014	June 30, 2013
State Agencies - Department of Military Affairs	1	1
Cities	16	16
Rural Fire Districts	8	8
Total	25	25

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rates for fiscal year 2014 were 9.5% for members hired prior to July 1, 1997 and not electing GABA, and 10.7% for members hired on or after July 1, 1997 and members electing GABA. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed.

Employer contribution rates for fiscal year 2014 were 14.36% of the total FURS-covered payroll.

The State contributed 32.61% of total compensation for all covered firefighters in fiscal year 2014. State contributions are requested at the beginning of each fiscal year based on previous fiscal year salary and are due no later than November 1. (Reference Schedule of Contribution Rates).

Effective July 1, 2013, employer and state contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

FURS Active Membership by Employee Type

Employee Type	6/30/2014	6/30/2013
GABA	611	605
Non-GABA	5	5
Total	616	610

Additional Service Purchase Due to a Reduction in Force: Section 19-2-706, MCA allows state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the PERB on the unpaid balance. No employees have taken advantage of this provision to date.

GASB Statement No. 67 Reporting: The membership data, actuarial assumptions and plan provision are the same as were described

in the June 30, 2013 Actuarial Valuation Report for FURS, except that it has been assumed that the rate of investment return is net only of investment expenses, rather than net of both investment and administrative expenses. The administrative expense rate is assumed to be 0.19% of active member payroll.

The discount rate as of June 30, 2014 is 7.75%, which is the assumed long-term expected rate of return on FURS investments. Projections of the fiduciary net position have indicated that it is expected to be sufficient to make projected benefit payments for current members.

The Total Pension Liability (TPL) at the beginning of the measurement year is measured as a valuation date of June 30, 2013. The TPL at June 30, 2013 is the same as was reported for actuarial valuation purposes as of June 30, 2013. The TPL at the end of the measurement year, June 30, 2014, is measured as of a valuation date of June 30, 2013 and projected to June 30, 2014. In future years, both the beginning and end of year TPL will be measured as of a valuation date one year prior to and projected to the appropriate date. There were no significant events during the projection period.

During the measurement year there were no changes in benefits or changes in assumptions. Because the beginning and end of year TPL are both based on the same actuarial valuation, there are no differences between expected and actual experience reported this year. Total contributions and investment income exceeded the service cost, interest cost, and administrative expenses, resulting in a decrease in the Net Pension Liability (NPL) of $27.3 million. The NPL remaining as of June 30, 2014 is $97.6 million.

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL can be very significant for a relatively small change in the discount rate. At June 30, 2014, the TPL using the current discount rate of 7.75% is $419.2 million. A 1.00% decrease in the discount rate increases the TPL to $478.4 million (14.1%) and increases the NPL to $156.8 million (60.7%). A 1.00% increase in the discount rate decreases the TPL to $370.8 million (11.5%) and decreases the NPL to $49.3 million (49.5%).

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the Normal Cost Rate plus an amortization payment of the Unfunded Actuarial Liability, if any, over no more than 30 years. As of June 30, 2014, the FURS amortizes in 11.3 years. During the fiscal year ended June 30, 2014, the FURS' assets gained 16.53% on a market value basis. However, due to the asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 12.54%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $12.5 million.

Volunteer Firefighters' Compensation Act (VFCA)

Plan Description: The VFCA is a statewide retirement and disability plan. This compensation plan was established in 1965 and is governed by Title 19, chapter 17, MCA. All members are unpaid volunteers and the State of Montana is the only contributor to the plan. Benefits are established by state law and can only be amended by the Legislature. The VFCA provides pension, disability, and survivorship benefits for all eligible volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas, towns or villages and includes volunteer fire departments, fire districts, and fire service areas under the laws of the State of Montana. Benefits are based on eligibility and years of service. Member rights are vested after ten years of credited service. VFCA also provides limited benefits for death or injuries incurred in the line of duty.

A member who chooses to retire and draw a pension benefit may return to service with a volunteer fire department without loss of benefits. However, a returning retired member may not be considered an active member accruing credit for service.

A brief summary of eligibility and benefits follows.

VFCA Summary of Benefits

Eligibility for benefit
Age 55, 20 years of credited service;
Age 60, 10 years of credited service.

Additional benefit
As of April 25, 2005, all retirees may receive a benefit equal to $7.50 per month for each year of credited service, up to 30 years of credited service (maximum benefit $225).

Effective July 1, 2011, members who retire on or after July 1, 2011 and have greater than 30 years of credited service will receive $7.50 per month for each additional year of credited service over 30 years if the pension trust fund is actuarially sound, amortizing any unfunded liabilities in 20 years or less. This determination will be made annually and a member's benefit will be capped at $225 a month (30 years of credited service) if the amortization period grows to greater than 20 years.

Vesting 10 years of credited service

Monthly benefit formula
$7.50 per year of credited service

Contributions: The State is the only contributor to the VFCA. Contributions are 5% of fire insurance premium taxes collected on certain fire risks. The State Auditor makes annual payments from the general fund to the Volunteer Firefighters' Compensation Act fund. (Reference Schedule of Contribution Rates).

Group Insurance Payments: Supplemental payments are available to qualified volunteer fire companies that provide additional group medical insurance for their members in case of death or injury incurred while in the line of duty. The payment is made to the volunteer fire companies and is equal to $75 per year for each mobile firefighting unit owned by the volunteer fire company, up to a maximum of two units.

GASB Statement No. 67 Reporting: The membership data, actuarial assumptions and plan provisions are the same as were described in the June 30, 2013 Actuarial Valuation Report for VFCA, except that it has been assumed that the rate of investment return is net only of investment expenses, rather than net of both investment and administrative expenses. The administrative expense is assumed to be $61,000.

The discount rate as of June 30, 2014 is 7.75%, which is the assumed long-term expected rate of return on VFCA investments. Projections of the fiduciary net position have indicated that it is expected to be sufficient to make projected benefit payments for current members.

The Total Pension Liability (TPL) at the beginning of the measurement year is measured as a valuation date of June 30, 2013. The TPL at June 30, 2013 is the same as was reported for actuarial valuation purposes as of June 30, 2013, except that for active members the TPL is based upon a normal cost that increases with the inflation rate rather than being level dollar. The TPL at the end of the measurement year, June 30, 2014, is measured as of a valuation date of June 30, 2013 and projected to June 30, 2014. In future years, both the beginning and end of year TPL will be measured as of a valuation date one year prior to and projected to the appropriate date. There were no significant events during the projection period.

During the measurement year there were no changes in benefits or changes in assumptions. Because the beginning and end of year TPL are both based on the same actuarial valuation, there are no differences between expected and actual experience reported this year. Total contributions and investment income exceeded the service cost, interest cost, and administrative expenses, resulting in a decrease in the Net Pension Liability (NPL) of $3.4 million. The NPL remaining as of June 30, 2014 is $5.1 million.

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL can be very significant for a relatively small change in the discount rate. At June 30, 2014, the TPL using the current discount rate of 7.75% is $38.4 million. A 1.00% decrease in the discount rate increases the TPL to $42.1 million (9.8%) and increases the NPL to $8.9 million (74.1%). A 1.00% increase in the discount rate decreases the TPL to $35.2 million (8.4%) and decreases the NPL to $1.9 million (63.0%).

Actuarial Status: The annual required contribution decreased from $1,116,227 at the June 30, 2013 valuation to $890,358 at the June 30, 2014 valuation. The actuarial contribution is determined as the normal cost, administrative expense, and a 20-year open amortization of the unfunded actuarial liability. As of June 30, 2014, the VFCA amortizes in 5.1 years. During the year ended June 30, 2014, the VFCA's assets gained 16.23% on a market value basis. However, due to the asset-smoothing method which recognizes only

a portion of the gains and losses, the return on the actuarial asset value was 12.34%. This return was above the assumed rate of return of 7.75% and resulted in an actuarial gain on investments of $1.3 million.

Public Employees' Retirement System-DCRP (PERS-DCRP)

Plan Description: The PERS-Defined Contribution Retirement Plan (DCRP) is a multiple employer plan established July 1, 2002 and governed by Title 19, chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The PERS-DCRP provides retirement, disability, and death benefits to plan members and their beneficiaries.

A brief summary of eligibility and benefits follows.

PERS-DCRP Summary of Benefits

Eligibility for benefit
Termination of Service

Vesting
Immediate for participant's contributions and attributable income;
5 years of membership service for the employer's contributions to individual accounts and attributable income.

Benefit
Depends upon eligibility and individual account balance;
Various payout options are available, including: taxable lump sums, periodic payments per participant direction and IRS permitted rollovers.

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2014 was 7.9% of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The entire amount of the member's contribution is credited to the individual account and maintained by the record keeper.

The 7.9% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates. There is no change to the member contributions on January 1, 2015.

Each state agency and university system employer contributed 8.17% of PERS-covered payroll during fiscal year 2014. Participating local government employers contribute 8.07% of PERS-covered payroll during fiscal year 2014. The State contributed the remaining 0.1% for local governments. Participating school districts contributed 7.8% of PERS-covered payroll during fiscal year 2014. The State contributed the remaining 0.37%. (Reference Schedule of Contribution Rates).

The employer rate of 8.17% is allocated as follows: 4.19% to the member's retirement account, 2.64% to the defined benefit plan choice rate, 0.04% to the defined contribution education fund, 0.3% to the long term disability plan and 1.0% to the defined benefit plan unfunded liability.

Following the 2013 Legislative Session, PERS employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and member contribution rates. There is no change to the employer contributions on January 1, 2015. (Reference Schedule of Contribution Rates).

PERS-DCRP Active Membership by Employer Type

Employer Type	6/30/2014	6/30/2013
State Agencies	1,022	957
Counties	360	332
Cities	272	274
Universities	114	123
High Schools	3	3
School Districts	247	237
Other Agencies	170	161
Total	2,188	2,087

Plan Membership Elections: Included in the financial statements are employer contribution transfers of $6,833 and member contribution transfers of $12,883. These transfers reflect the contribution transfers of DCRP participants that filed elections at or near the June 30 cutoff date, although the contributions were not moved until early fiscal year 2015.

DCRP Education Fund: Implemented July 1, 2002, the DCRP Education Fund (DCEd), as governed by section 19-3-112, MCA, was established to provide funding for the required education programs for members who have joined the PERS-DCRP. The DCEd was funded by 0.04% of the employers' contributions in fiscal year 2014.

DCRP Disability Fund: Implemented July 1, 2002, the DCRP Disability Fund (DC Disability), as governed by section 19-3-2117, MCA, provides disability benefits to eligible members who elect the PERS-DCRP. The DCRP Disability Fund received 0.3% of the employers' contribution in fiscal year 2014. The DC Disability OPEB is reported on the financial statements under the column heading *PERS-DCRP Disability OPEB.*

At June 30, 2014 PERS-DCRP had 264 reporting employers, one more than in fiscal year 2013. The participating employers consist of:

PERS-DCRP EMPLOYERS

Employers	June 30, 2014	June 30, 2013
State Agencies	31	31
Counties	44	44
Cities and Towns	51	49
Universities	5	5
School Districts	91	92
High Schools	2	2
Other Agencies	40	40
Total	264	263

Participants of the PERS-DCRP direct their contributions and a portion of their employer's contribution among the offered investment options. Participants may invest in any or all of the offered options and transfer between options on a daily basis, if desired. The remaining portion of the employer's contributions is used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP, to fund an employee education program and to reduce the defined benefit plan's unfunded liability. The investment options offered are selected by the PERB in compliance with their Investment Policy Statement, the advice of an independent investment consultant, and assistance from the statutorily-created Employee Investment Advisory Council.

The offered investment options fall into two primary types: (1) the fixed investment option and (2) the variable investment options.

Variable investments: The variable investment options include a variety of Large, Mid and Small Cap mutual funds, as well as a fixed income bond fund and Target Date Retirement Funds. Options range from aggressive to conservative. The mutual funds cover all standard asset classes and categories. The investment options as of June 30, 2014 are as follows.

PERS-DCRP Investment Options

International Stock Funds

American Funds New Perspective A
Oakmark International
Vanguard Total International Stock Index
Oppenheimer Developing Markets Y

Small Company Stock Funds

Vanguard Small Cap Growth Index
Vanguard Small Cap Index Signal
Target Small Cap Value

Mid-Sized Company Stock Funds
Munder Mid-Cap Core Growth A
MFS Mid-Cap Value

Large Company Stock Funds
Alger Capital Appreciation Z
BlackRock Equity Index - Collective F
Vanguard Equity Income - Adm
JP Morgan US Equity

Balanced Funds
Vanguard Balanced Index - Inst'l

Bond Funds
Vanguard Total Bond Market Index Signal

Target Date Funds
T. Rowe Price Retirement 2005 through 2055

Fixed Investment Options
Montana Fixed Fund

Montana Stable Value Fixed Fund (Fixed Investment): The Montana Stable Value Fixed Fund option of the PERS-DCRP, are administered through outside vendors Pacific Investment Management Company (PIMCO), custodial bank, State Street Bank Kansas City (SSKC), and a third-party insurer, Transamerica. When participants invest in the Montana Stable Value Fixed Fund option they are guaranteed a fixed rate of return. The Montana Stable Value Fixed Fund employs a synthetic stable value strategy where the investment manager, PIMCO, manages a diversified bond portfolio and Transamerica guarantees the participants' principal investments and earnings. Transamerica sets a fixed quarterly rate of return based on the investment manager's portfolio market value yield and duration.

All money invested in the Montana Stable Value Fixed Fund of the PERS-DCRP and Deferred Compensation Plan are invested in the Pooled Trust. The Pooled Trust qualifies as a group trust under sections 401(a), including section 401(a)(24) and 501(a), of the IRC of 1986, as amended. Under the Pooled Trust agreement Transamerica provides a guarantee of principal and sets a fixed quarterly crediting rate. The Pooled Trust assets are invested by PIMCO and are held under a custodial agreement with SSKC. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, PIMCO, and Transamerica.

Administrative expenses and revenues are accounted for within the plan. Expenses for the DCRP can generally be classified as 1) administrative, including miscellaneous or 2) investment management. Following is a summary of revenues and expenses.

Administrative funding: PERB's administrative fee is a basis point (or percent) fee based on account balances. On a quarterly basis, the record keeper, Great-West Financial (Great-West), withholds the basis point fee from each plan participant's account and, after paying Great-West fees, submits the remainder to the PERB. They are recorded as *Miscellaneous Revenue* in the financial statements.

The PERB receives revenue sharing fees from certain mutual fund companies. These fees are normally charged by the mutual funds for the purpose of individual record keeping or marketing. The PERB uses revenue sharing fees to pay administrative expenses associated with the PERS-DCRP. These amounts are recorded as *Miscellaneous Revenue.*

Record keeping fees: The record keeper, Great-West, charges a set administrative fee

to the PERB for all plan participants. Prior to October 1, 2012, the administrative fee was withheld from each plan participant's account. On October 1, 2012, following a review of the plan revenues and expenses, the PERB instructed Great-West to eliminate the fee withholding process. These amounts are recorded as *Miscellaneous Expense* in the financial statements.

Fixed investment fees: The fixed investment crediting rate is declared net of expenses. Fees on the fixed investments are charged by each of the three providers, PIMCO, SSKC, and Transamerica. The fees are defined under each contract for specific services. The fees charged by PIMCO and SSKC for the externally managed fixed investments are classified as *Investment Expense*. The fees charged by Transamerica are classified as *Miscellaneous Expense.*

Mutual funds/variable investments fees: All of the variable investments have investment management fees; some may have additional administrative fees. These fees are not presented in the financial statements. Mutual fund earnings are declared net of expenses, both investment management and administrative, in accordance with the Securities and Exchange Commission and other regulatory authorities. Current reporting standards for mutual fund companies do not require costs to be made available in the detailed cost reports.

Deferred Compensation Plan (457)

Plan Description: The Deferred Compensation (457) Plan is a voluntary supplemental retirement savings plan established in 1974. The Deferred Compensation Plan is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Code (IRC) §457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions.

Assets of the Deferred Compensation Plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. The record keeper for the plan is Great-West Financial (Great-West). Participants elect to defer a portion of their salary, within Internal Revenue Code limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed, provided IRS-specified criteria are met.

A brief summary of eligibility and benefits follows.

Deferred Compensation Plan Summary

Contribution
Voluntary, pre-tax deferral or designated Roth contribution

Eligibility for benefit
Not available to participant until separation from service, retirement, death, or upon an unforeseeable emergency, while still employed, provided IRS-specified criteria are met.

Deferred Compensation Plan Summary (continued)

Vesting
Participants are fully vested in their accounts immediately.

Benefit
Lump sum or periodic benefit payment, at the option of the participant. Based on individual account balances and plan provisions. IRS permitted rollovers are also possible.

At June 30, 2014 the Deferred Compensation Plan had 36 participating employers, an increase of five from fiscal year 2013. The participating employers consist of:

DEFERRED COMPENSATION EMPLOYERS

Employers	June 30, 2014	June 30, 2013
State of Montana*	1	1
Counties	4	3
Colleges and Universities	5	5
School Districts	6	5
Cities	10	7
Other	10	10
Total	36	31

*The State of Montana includes 34 agencies; however, due to the nature of the reporting for the 457 plan we are unable to specifically determine which agencies have participating employees.

Contributions: The Deferred Compensation Plan is a voluntary retirement plan designed to supplement retirement, Social Security and other retirement plans and savings. Participants designate the amount to contribute within IRC limitations.

Plan participants direct their deferred salary among the offered investment options. The investment options offered are selected by the PERB in compliance with their Investment Policy Statement, the advice of an independent investment analyst, and the statutorily-created Employee Investment Advisory Council. Participants may invest in any or all of the offered options and transfer between options on a daily basis, if desired.

The offered investment options fall into two primary types: (1) the fixed investment option and (2) the variable investment options.

Variable investments: The variable investment options include a variety of Large, Mid and Small Cap mutual funds, as well as a fixed income bond fund and Target Date Retirement funds. Options range from aggressive to conservative. The mutual funds

cover all standard asset classes and categories. The investment options as of June 30, 2014 are as follows.

<u>Deferred Compensation (457) Plan Investment Options</u>

International Stock Funds
Artisan International
Mutual Global Discovery Z
Dodge & Cox International
American Funds New Perspective R4
Oppenheimer Developing Markets Y

Small Company Stock Funds
Vanguard Small Cap Growth Index
Vanguard Small Cap Index Signal

Mid Cap Company Stock Funds
Neuberger Berman Genesis-Trust
Munder Mid-Cap Core Growth A
Columbia Mid-Cap Value Fund Z

Large Cap Stock Funds
Vanguard Equity Income
Fidelity Contrafund
Vanguard Institutional Index
Calvert Social Investment Fund Equity

Balanced Funds
Vanguard Balanced Index

Bond Funds
Neuberger Berman
High Income Bond Fund Inv
PIMCO Total Return

Target Date Funds
T. Rowe Price Retirement 2005 through 2055

Fixed Investment Options
Montana Fixed Fund

In addition to the investments listed, plan participants previously had the option to direct a portion of their deferrals to a term life insurance policy provided through Allianz Life Insurance. The ability to invest in life insurance is allowed under the IRC and was offered to plan participants prior to life insurance being offered as a standard component of health insurance benefit packages. This investment option has been discontinued; however, plan participants who had previously elected this option may continue.

Montana Stable Value Fixed Fund (Fixed Investment): The Montana Stable Value Fixed Fund option of the Deferred Compensation Plan, are administered through outside vendors Pacific Investment Management Company (PIMCO), custodial bank, State Street Bank Kansas City (SSKC), and a third-party insurer, Transamerica. When participants invest in the Montana Stable Value Fixed Fund option they are guaranteed a fixed rate of return. The Montana Stable Value Fixed Fund employs a synthetic stable value strategy where the investment manager, PIMCO, manages a diversified bond portfolio and Transamerica guarantees the participants' principal investments and earnings. Transamerica sets a fixed quarterly rate of return based on the investment manager's portfolio yield and duration.

All money invested in the Montana Stable Value Fixed Fund of the PERS-DCRP and Deferred Compensation Plan is invested in the Pooled Trust. The Pooled Trust qualifies as a group trust under sections 401(a), including section 401(a)(24) and 501(a), of the IRC of 1986, as amended. Under the Pooled Trust agreement Transamerica provides a guarantee of principal and sets a fixed quarterly crediting rate. The Pooled Trust assets are invested by PIMCO and are held under a custodial

agreement with SSKC. The Pooled Trust assets are invested by PIMCO based on an investment guideline schedule as agreed upon in the Pooled Trust Contract and approved by the PERB, PIMCO, and Transamerica.

Administrative expenses and revenues are accounted for within the plan. Expenses for the Deferred Compensation Plan can generally be classified as 1) administrative, including miscellaneous or 2) investment management. Following is a summary of all revenues and expenses.

Administrative funding: PERB's administrative fee is a basis point (or percent) fee based on account balances. On a quarterly basis, the record keeper, Great-West Financial (Great-West), withholds the basis point fee from each plan participant's account and, after paying Great-West fees, submits the remainder to the PERB. They are recorded as *Miscellaneous Revenue* in the financial statements.

The PERB receives revenue sharing fees from certain mutual fund companies. These fees are normally charged by the mutual funds for the purpose of individual record keeping or marketing. The PERB uses revenue sharing fees to pay administrative expenses associated with the Deferred Compensation Plan. These amounts are recorded as *Miscellaneous Revenue.*

Record keeping fees: The record keeper, Great-West, charges a set administrative fee to the PERB for all plan participants. Prior to October 1, 2012, the administrative fee was withheld from each plan participant's account. On October 1, 2012, following a review of the plan revenues and expenses, the PERB instructed Great-West to eliminate the fee withholding process. These amounts are recorded as *Miscellaneous Expense* in the financial statements.

Fixed investment fees: The fixed investment crediting rate is declared net of expenses. Fees on the fixed investments are charged by each of the three providers, PIMCO, SSKC, and Transamerica. The fees are defined under each contract for specific services. The fees charged by PIMCO and SSKC for the externally managed fixed investments are classified as *Investment Expense.* The fees charged by Transamerica are classified as *Miscellaneous Expense.*

Mutual fund/variable investments fee: All of the variable investments have investment management fees; some may have additional administrative fees. These fees are not presented on the financial statements. Mutual fund earnings are declared net of expenses, both investment management and administrative, in accordance with the Securities Exchange Commission and other regulatory authorities. Current reporting standards for mutual companies do not require costs to be made available in the detailed cost reports.

FY 2014 Schedule of Contribution Rates

System	Member	Employer	State
PERS-DBRP*	**7.9%** [19-3-315(1)(a)(i), MCA]	**8.17%** State & University **8.07%** Local Governments **7.8%** School Districts (K-12) [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund **0.37%** School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
PERS-DCRP*	**7.9%** [19-3-315(1)(a)(i), MCA]	**8.17%** State & University **8.07%** Local Governments **7.8%** School Districts (K-12) [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund **0.37%** School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
PERS-DCRP Disability OPEB		**0.3%** [19-3-2117, MCA]	
JRS	**7.0%** [19-5-402, MCA]	**25.81%** [19-5-404, MCA]	
HPORS*	**10.0%** - hired prior to 7/01/97 & not electing GABA **10.05%** - hired after 6/30/97 & members electing GABA [19-6-402, MCA]	**28.15%** [19-6-404(1), MCA]	**10.18%** of salaries – paid from the General Fund [19-6-404(2), MCA]
SRS	**9.245%** [19-7-403, MCA]	**10.115%** [19-7-404, MCA]	
GWPORS	**10.56%** [19-8-502, MCA]	**9.0%** [19-8-504, MCA]	
MPORS	**7.0%** - hired after 6/30/75 & prior to 7/1/79 & not electing GABA [19-9-710(b), MCA] **8.5%** - hired after 6/30/79 and prior to 7/1/97 & not electing GABA [19-9-710(c), MCA] **9.0%** - hired after 6/30/97 & members electing GABA [19-9-710(d), MCA & 19-9-710(2), MCA]	**14.41%** [19-9-703, MCA]	**29.37%** of salaries – paid from the General Fund [19-9-702, MCA]
FURS	**9.5%** - hired prior to 7/1/97 & not electing GABA [19-13-601(2)(a), MCA] **10.7%** - hired after 06/30/97 & members electing GABA [19-13-601(2)(b), MCA]	**14.36%** [19-13-605, MCA]	**32.61%** of salaries – paid from the General Fund [19-13-604, MCA]
VFCA			**5.0%** of fire insurance premiums, paid from the General Fund [19-17-301, MCA]

*The employer and/or member contribution rates increase on July 1, 2014 for PERS-DBRP, PERS-DCRP and HPORS.

Public Employees' Retirement Board

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Required Supplementary Information

Schedule of Changes in Multiple-Employer Plans

Net Pension Liability

as of June 30, 2014

Last 10 Fiscal Years[1]

	PERS-DBRP	SRS
Total pension liability		
Service cost (Beginning of year)	$ 137,452,701	$ 15,117,708
Interest (includes interest on service cost)	456,406,491	23,976,049
Changes of benefit terms		
Differences between expected and actual experience		
Changes of assumptions[2]		(49,542,278)
Benefit payments, including refunds of member contributions	(307,741,308)	(13,943,335)
Net change in total pension liability	$ 286,117,884	$ (24,391,856)
Total pension liability - beginning	5,902,662,931	350,664,155
Total pension liability - ending (a)	$ 6,188,780,815	$ 326,272,299
Plan fiduciary net position		
Contributions - employer[3]	$ 95,820,397	$ 6,689,311
Contributions - non-employer	34,561,721	
Contributions - member[3]	92,160,048	6,447,179
Net investment income	732,253,062	41,789,437
Benefit payments, including refunds of member contributions	(307,741,308)	(13,943,335)
Administrative expense	(3,522,346)	(203,493)
Net change in plan fiduciary net position	$ 643,531,574	$ 40,779,099
Plan fiduciary net position - beginning	$ 4,299,238,343	243,876,180
Plan fiduciary net position - ending (b)[4 and 5]	$ 4,942,769,917	$ 284,655,279
Net pension liability - ending (a-b)	$ 1,246,010,898	$ 41,617,020

[1]*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

[2]*The Changes of assumptions for SRS is the adjustment in the discount rate from 7.75% to 6.68% at June 30, 2013.*

[3]*The Contributions - employer consists of the Employer, Membership Fees, and Retirement Incentive Program less the State contribution for GABA of $425,886 on the financial statements. The Contributions - member consists of the Plan Member and Interest Reserve Buyback on the financial statements.*

[4]*The difference of $2,905,249 in the PERS-DBRP ending fiduciary net position on the financial statements and the ending fiduciary net position reported in the GASB 67 schedules is composed of the $2,768,460 balance of the PERS-DBRP Education Fund at June 30, 2014, which is not used in the actuarial valuation or in the GASB 67 reporting; $152,238 in the OPEB Implicit Rate Subsidy LT adjustment; and a $15,449 administrative expense adjustment. The adjustments were completed after fiscal year end..*

[5]*The difference in the ending fiduciary net position on the financial statements and the ending fiduciary net position reported in the GASB 67 schedules for the SRS, GWPORS, MPORS, FURS, and VFCA is the OPEB Implicit Rate LT adjustment completed after fiscal year end.*

GWPORS	MPORS	FURS	VFCA
$ 7,849,828	$ 11,794,994	$ 10,608,895	$ 237,639
11,258,354	35,011,854	30,847,306	2,843,095
(5,229,489)	(20,527,874)	(19,052,130)	(2,294,676)
$ 13,878,693	$ 26,278,974	$ 22,404,071	$ 786,058
139,985,218	450,043,289	396,769,177	37,573,382
$ 153,863,911	$ 476,322,263	$ 419,173,248	$ 38,359,440
$ 3,762,217	$ 6,459,488	$ 5,767,277	
	13,048,938	13,007,210	$ 1,818,237
4,461,889	4,133,021	4,697,333	
20,069,398	45,230,427	45,464,858	4,815,491
(5,229,489)	(20,527,874)	(19,052,130)	(2,294,676)
(161,663)	(166,807)	(153,622)	(136,079)
$ 22,902,352	$ 48,177,193	$ 49,730,926	$ 4,202,973
115,840,754	271,009,167	271,825,743	29,067,228
$ 138,743,106	$ 319,186,360	$ 321,556,669	$ 33,270,201
$ 15,120,805	$ 157,135,903	$ 97,616,579	$ 5,089,239

Public Employees' Retirement Board

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Schedule of Changes in Single-Employer Plans
Net Pension Liability

as of June 30, 2014

Last 10 Fiscal Years[1]

	JRS	HPORS
Total pension liability		
Service Cost (Beginning of year)	$ 1,593,854	$ 3,464,399
Interest (includes interest on service cost)	3,824,389	13,517,924
Changes of benefit terms		
Differences between expected and actual experience		
Changes of assumptions		
Benefit payments, including refunds of member contributions	(3,022,512)	(9,443,007)
Net change in total pension liability	$ 2,395,731	$ 7,539,316
Total pension liability--beginning	49,236,164	175,593,829
Total pension liability--ending (a)	$ 51,631,895	$ 183,133,145
Plan fiduciary net position		
Contributions - employer	$ 1,651,483	$ 5,473,577
Contributions - non-employer		261,930
Contributions - member[2]	481,461	1,458,042
Net investment income	12,420,597	18,678,284
Benefit payments, including refunds of member contributions	(3,022,512)	(9,443,007)
Administrative expense	(100,567)	(109,140)
Net change in plan fiduciary net position	$ 11,430,462	$ 16,319,686
Plan fiduciary net position - beginning	$ 72,792,380	109,690,706
Plan fiduciary net position - ending (b)[3]	$ 84,222,842	$ 126,010,392
Net pension liability - ending (a-b)	$ (32,590,947)	$ 57,122,753

[1]This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

[2]The HPORS Contributions - member consists of Plan Member and Interest Reserve Buyback on the financial statements.

[3]The financial statement Plan Fiduciary Net Position is different from the GASB Statement No. 67 reported Plan Fiduciary Net Position. The difference for JRS and HPORS is due to the OPEB Implicit Rate LT adjustment completed after fiscal year end.

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Public Employees' Retirement Board

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Schedule of Net Pension Liability for Multiple-Employer Plans

as of June 30, 2014

Last 10 Fiscal Years[1]

	PERS-DBRP	SRS
Total Pension Liability	$ 6,188,780,815	$ 326,272,299
Plan Fiduciary Net Position[2 and 3]	4,942,769,917	284,655,279
Multiple-Employers' Net Pension Liability (Asset)	$ 1,246,010,898	$ 41,617,020
Plan fiduciary net position as a percentage of the total pension liability	79.87%	87.24%
Covered Employee Payroll	$ 1,129,109,402	$ 64,672,635
Net pension liability as a percentage of covered employee payroll	110.35%	64.35%

[1]*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

[2]*The difference of $2,905,249 in the PERS-DBRP ending fiduciary net position on the financial statements and the ending fiduciary net position reported in the GASB 67 schedules is composed of $152,238 in the OPEB Implicit Rate Subsidy LT adjustment; a $15,449 administrative expense adjustment; and the $2,768,460 balance of the PERS-DBRP Education Fund at June 30, 2014 which is not used in the actuarial valuation or in the GASB 67 reporting. The adjustments were completed after the actuarial valuations and GASB 67 reports were performed for fiscal year ending June 30, 2014.*

[3]*The difference in the ending fiduciary net position on the financial statements and the ending fiduciary net position reported in the GASB 67 schedules for the SRS, GWPORS, MPORS, FURS, and VFCA is the OPEB Implicit Rate adjustment completed after the actuarial valuation and GASB 67 reports were performed for fiscal year ending June 30, 2014.*

GWPORS	MPORS	FURS	VFCA
$ 153,863,911	$ 476,322,263	$ 419,173,248	$ 38,359,440
138,743,106	319,186,360	321,556,669	33,270,201
$ 15,120,805	$ 157,135,903	$ 97,616,579	$ 5,089,239
90.17%	67.01%	76.71%	86.73%
$ 41,636,566	$ 44,426,617	$ 39,891,869	N/A
36.32%	353.70%	244.70%	N/A

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Schedule of Net Pension Liability for Single-Employer Plans

as of June 30, 2014

Last 10 Fiscal Years[1]

	JRS	HPORS
Total Pension Liability	$ 51,631,895	$ 183,133,145
Plan Fiduciary Net Position[2]	84,222,842	126,010,392
Single-Employers' Net Pension Liability (Asset)	$ (32,590,947)	$ 57,122,753
Plan fiduciary net position as a percentage of the total pension liability	163.12%	68.81%
Covered Employee Payroll	$ 6,354,763	$ 14,149,269
Net pension liability as a percentage of covered employee payroll	-512.86%	403.72%

[1]*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

[2]*The difference in the ending fiduciary net position on the financial statements and the ending fiduciary net position reported in the GASB 67 schedules is the OPEB Implicit Rate adjustment completed after the actuarial valuation and GASB 67 reports were performed for fiscal year ending June 30, 2014*

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Public Employees' Retirement Board

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Required Supplementary Information

Schedule of Employer and Non-Employer (State) Contributions

for Cost-Sharing Multiple-Employer Plans

as of June 30, 2014

(in thousands)

Last 10 Fiscal Years[1]

	PERS-DBRP	SRS
Actuarially Determined Contribution	$ 138,768	$ 9,779
Contributions in Relation to the		
Actuarially Determined Contribution:		
Employer Contributions	95,820	6,689
Non-Employer Contributions (State)	34,562	
Total Contributions	$ 130,382	$ 6,689
Contribution Deficiency / (Excess)	**$8,386**	**$ 3,090**
Covered Employee Payroll	$ 1,129,109	$ 64,673
Contributions as a Percentage of Covered Employee Payroll	11.55%	10.34%

[1] This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

GWPORS		MPORS		FURS		VFCA	
$	4,976	$	17,922	$	13,699	$	1,116
							1,818
	3,762		6,459		5,767		
			13,049		13,007		
$	3,762	$	19,508	$	18,774		
$	**1,214**	**$**	**(1,586)**	**$**	**(5,075)**	**$**	**(702)**
$	41,637	$	44,427	$	39,892		N/A
	9.04%		43.91%		47.06%		N/A

Public Employees' Retirement Board

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Required Supplementary Information

Schedule of Employer and Non-Employer (State) Contributions for Single-Employer Plans

as of June 30, 2014

(in thousands)

Last 10 Fiscal Years[1]

	JRS		HPORS	
Actuarially Determined Contribution			$	6,121
Contributions in Relation to the				
Actuarially Determined Contribution:				
Employer Contributions	$	1,651		5,474
Non-Employer Contributions (State)				262
Total Contributions	$	1,651	$	5,736
Contribution Deficiency / (Excess)	**$**	**(1,651)**	**$**	**385**
Covered Employee Payroll	$	6,355	$	14,149
Contributions as a Percentage of Covered Employee Payroll		25.98%		40.54%

[1]This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to Schedule

Valuation date: June 30, 2013

Key Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Inflation	3.00%
Salary increases	4.00% plus merit/seniority increases where applicable
Investment rate of return[2]	7.75%, net of investment and administrative expenses
Mortality (Healthy)	RP-2000 Combined Mortality projected to 2015

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Public Employees' Retirement Board

A Component Unit of the State of Montana

Required Supplementary Information

Schedule of Investment Returns for Multiple-Employer Plans

as of June 30, 2014

Last 10 Fiscal Years[1]

	PERS-DBRP	SRS	GWPORS
Annual money-weighted rate of return, net of investment expense	17.18%	17.15%	17.12%

	MPORS	FURS	VFCA
Annual money-weighted rate of return, net of investment expense	17.16%	17.15%	17.23%

[1]This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Public Employees' Retirement Board

A Component Unit of the State of Montana

Required Supplementary Information

Schedule of Investment Returns for Single-Employer Plans

as of June 30, 2014

Last 10 Fiscal Years[1]

	JRS	HPORS
Annual money-weighted rate of return, net of investment expense	17.17%	17.19%

[1]This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Public Employees' Retirement Board

A Component Unit of the State of Montana

Notes to the Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of latest actuarial valuation follows:

	PERS-DBRP	JRS	HPORS
Valuation date	June 30, 2014	June 30, 2014	June 30, 2014
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Remaining amortization period in years:			
Unfunded Liability[1]	29.3		30.3
Unfunded Credit [2]		0	
Asset valuation method	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
Actuarial assumptions:			
Investment rate of return compounded annually (net of investment expense)	7.75%	7.75%	7.75%
Projected salary increases			
General Wage Growth*	4.00%	4.00%	4.00%
Merit	0% - 6%	None	0% - 7.3%
*Includes inflation at	3.00%	3.00%	3.00%
Administrative Expenses as a Percentage of Payroll[3]	0.27%	0.15%	0.23%
Benefit Adjustments			
GABA	3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% after 1 yr	3% after 1 yr or 1.5% if hired on or after July 1, 2013, after 3 years
Non-GABA	N/A	Biennial increase to salary of active member in like position	2% per yr service, not to exceed 5%, for probationary officer's base pay

[1] The amortization period for the unfunded actuarial liability in the SRS and GWPORS does not amortize.

[2] Assets are larger than the past service liability – creating an unfunded credit; the credit is amortized over future costs and the amortization period may not exceed 30 years.

[3] The administrative expense assumption is now explicitly stated as a cost element rather than being included implicitly within the investment return.

SRS	GWPORS	MPORS	FURS	VFCA
June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level dollar amount, open
Does not amortize[1]	Does not amortize[1]	19.6	11.3	5.1 Based on Current Revenue
4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
7.75%	7.75%	7.75%	7.75%	7.75%
4.00%	4.00%	4.00%	4.00%	N/A
0% - 7.3%	0% - 7.3%	0% - 7.3%	0% - 7.3%	N/A
3.00%	3.00%	3.00%	3.00%	
0.17%	0.17%	0.20%	0.19%	$61,000
3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% or 1.5% for new hires on or after July 1, 2007, after 1 year	3% after 1 yr	3% after 1 yr	N/A
N/A	N/A	50% newly confirmed officer	50% newly confirmed officer	N/A

Public Employees' Retirement Board

A Component Unit of the State of Montana

Required Supplementary Information

Schedule of Funding Progress for PERS-DCRP Disability OPEB

(in thousands)

System	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL (UAL)	Funded Ratio %	Covered Payroll	UAL as a Percentage of Covered Payroll
PERS-DCRP DISABILITY OPEB	6/30/2013	$ 2,184	$ 2,715	$ 531	80.5%	$ 90,128	1%

The actuarial valuation for the PERS-DCRP Disability OPEB is performed on a biennial basis with the most recent actuarial valuation being as of June 30, 2013. The next valuation will be completed for fiscal year ending June 30, 2015.

This schedule is intended to show two years' previous information. This schedule shows only information for the most recent completed fiscal year which is fiscal year June 30, 2013. With this being the first year of reporting the plan as an OPEB plan, the previous two years' information is not available. Additional years will be displayed as they become available.

Public Employees' Retirement Board

A Component Unit of the State of Montana

Required Supplementary Information

Schedule of Employer Contributions & Other Contributing Entities

System	Year Ended June 30	Annual Required Contributions	Employer Percentage Contributed	Annual Required Contribution Rate	Annual Required State Contribution	State Percentage Contributed
PERS-DCRP DISABILITY OPEB	2013	$ 315,446	91.42%	0.35%	$ 532,014	100.00

Refer to the "Notes to the Required Supplementary Information".

The PERS-DCRP Disability OPEB actuarial valuation is performed on a biennial basis with the first year being June 30, 2013.
The next valuation will be completed for fiscal year ending June 30, 2015.
This schedule is intended to show information for 6 years. Additional years will be displayed as they become available.

Public Employees' Retirement Board

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Notes to Required Supplementary Information for PERS-DCRP Disability OPEB

Valuation Date	June 30, 2013
Actuarial cost method	Entry age funding method
Amortization method	Level percent of payroll, open
Remaining amortization period	30 years
Asset valuation method	Market Value

Actuarial assumptions:

Investment rate of return*	3.50% (net of expenses)
General wage growth*	4.00% (3.00% inflation plus 1.00% real wage growth)
Merit Salary Increases	0.00% - 6.00%
*Includes inflation at	3.00%

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Public Employees' Retirement Board

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Required Supplementary Information

Schedule of Funding Progress for OPEB

(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio % (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2009		$ 686,393	$ 686,393	0.00%	$1,438,749	47.71%
1/1/2011[1]		$ 733,935	$ 733,935	0.00%	$1,644,229	44.64%
1/1/2013		$ 969,127	$ 969,217	0.00%	$1,991,739	48.66%

At June 30, 2014, the most recent actuarial valuation available was completed by the State of Montana January 1, 2013 for the calendar year ending December 31, 2013. This actuarial valuation is completed every two years with the next valuation to be completed as of January 1, 2015 for the calendar year ending December 31, 2015. The State of Montana finances claims on a pay-as-you-go basis and does not advance fund the OPEB liability. Therefore, the funded ratio remains at 0% at June 30, 2014. This is the OPEB obligation for MPERA as a State of Montana employer and is determined by the State of Montana

[1]The Actuarial Accrued Liability (AAL) and Unfunded AAL (UAAL) were adjusted for the actuarial valuation date 1/1/2011 to show the inactive membership that was not included in the amounts reported in the FY2012 CAFR.

Public Employees' Retirement Board

A Component Unit of the State of Montana

Notes to Required Supplementary Information for OPEB

Valuation Date	January 1, 2013
Actuarial cost method	Projected unit credit funding method
Amortization method	Level percent of payroll, open
Remaining amortization period	30 years
Asset valuation method	Not applicable since no assets meeting the definition of plan assets under GASB 45

Actuarial assumptions:

Projected salary increases	2.50%
Participation	
Future retirees	55.0%
Future eligible spouses	60.0%
Interest/Discount Rate	4.25%

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Public Employees' Retirement Board

A Component Unit of the State of Montana

Schedule of Administrative Expenses

Year Ended June 30, 2014

	Defined Benefit Plans	PERS-DBRP Education Fund	Defined Contribution PERS-DCRP	Deferred Compensation (457) Plan
Personal Services				
Salaries	$ 1,928,025	$ 166,272	$ 224,713	$ 164,913
Board Members' Per Diem	6,191		830	679
Employee Benefits	610,000	59,007	76,033	53,457
Total Personal Services	2,544,216	225,279	301,576	219,049
Other Services				
Consulting & Professional Services	717,627	903	104,378	96,925
Legal Fees and Court Costs	39,826		412	66
Audit Fees	49,018		5,978	4,782
Medical Services	7,902			
Records Storage	4,392		536	429
Computer Processing	245,961		27,815	5,991
Printing and Photocopy Charges	23,244	3,803	4,070	1,264
Warrant Writing Services	42,323		5,161	4,129
Other	144,982	1,425	17,625	12,424
Total Other Services	1,275,275	6,131	165,975	126,010
Communications				
Recruitment Costs	1,362	105	175	110
Postage and Mailing	85,513	4,512	5,453	1,584
Telephone	36,928	3,582	4,822	2,878
Total Communications	123,803	8,199	10,450	4,572
Other Expenses				
Supplies and Materials	89,652	7,230	11,872	7,942
Travel	30,872	4,678	7,149	5,855
Rent	216,213	19,629	28,074	16,851
Repairs and Maintenance	2,702	246	351	211
Compensated Absences	50,541	879	7,511	8,405
OPEB Expenses	76,062	7,803	9,580	6,458
Miscellaneous	110,427	9,365	15,598	10,669
Total Other Expenses	576,469	49,830	80,135	56,391
Total Administrative Expenses	**$ 4,519,763**	**$ 289,439**	**$ 558,136**	**$ 406,022**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Schedule of Investment Expenses

Year Ended June 30, 2014

Plan	Investment Manager	Fees
PERS-DBRP	Board of Investments	$26,863,258
JRS	Board of Investments	455,790
HPORS	Board of Investments	685,330
SRS	Board of Investments	1,534,248
GWPORS	Board of Investments	737,647
MPORS	Board of Investments	1,659,938
FURS	Board of Investments	1,669,063
VFCA	Board of Investments	176,463
DC	CICI Utility	50
	PIMCO	66,055
	State Street Bank	4,118
	Transamerica	26,863
457	CICI Utility	50
	PIMCO	623,968
	State Street Bank	39,426
	Transamerica	457,480
Total Investment Expense		**$34,999,747**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Schedule of Professional/Consultant Fees

Year Ended June 30, 2014

Individual or Firm	Nature of Service	Amount Paid
Consultant Fees		
Amdec, LTD	Computer Programming Services	$ 145,008
A 2 Z Personnel	Temporary Employment Serivces	56,038
Beki Glyde Brandborg	Facilitator	7,400
Cheiron, Inc	Actuarial Consultant	138,815
Comserv, Inc.	Death Validation Services	1,411
Ecofile	Imaging Services	13,915
Government Finance Officers Assoc	CAFR Review	1,015
Ice Miller	Tax Consultants	17,728
Julie Benson-Rosston	Facilitator	5,500
Provaliant Retirement, LLC	Project Management	107,816
Recall Secure Destruction Services	Secure Shredding Services	544
Sagitec Solutions, LLC	Pension Systems Design	162,948
Seisint, Inc.	Risk Data Management Services	478
Ventera Corporation	Data Services	158,218
Wilshire Associates Inc.	Mutual Funds Performance Review	103,000
Consultant Fees Subtotal		919,834
Other Professional Fees		
Dean Gregg, PHD	Medical Consultant	1,170
Department of Justice	Legal Services	1,396
Legislative Audit Division	Independent Auditors	58,779
Robert J Bateen, PHD	Medical Consultant	115
Timothy D Schofield, MD PLLC	Medical Consultant	6,617
Other Professional Fees Subtotal		68,077
Total Professional/Consultant Fees		$ 987,911

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Fiduciary Net Position (PERS-DBRP and PERS-DBEd)

as of June 30, 2014

	PERS-DBRP	PERS-DBEd	TOTAL
Assets			
Cash and Short-term Investments	$ 109,847,041	$ 2,793,453	$ 112,640,494
Securities Lending Collateral	207,292,003	2,056	207,294,059
Receivables			
Interest	5,366,402	268	5,366,670
Accounts Receivable	1,649,012		1,649,012
Due from Other Funds	443,412	12,137	455,549
Due from Primary Government	3,601,869		3,601,869
Notes Receivable	20,714		20,714
Total Receivables	11,081,409	12,405	11,093,814
Investments, at fair value			
Montana Domestic Equity Pool (MDEP)	1,933,145,416		1,933,145,416
Retirement Fund Bond Pool (RFBP)	1,069,517,475		1,069,517,475
Montana International Pool (MTIP)	877,318,009		877,318,009
Montana Private Equity Pool (MPEP)	517,872,903		517,872,903
Montana Real Estate Pool (MTRP)	426,527,659		426,527,659
Structured Investment Vehicles (SIV)	1,148,255	30,397	1,178,652
Total Investments	4,825,529,717	30,397	4,825,560,114
Capital Assets			
Property and Equipment, at cost,			
net of Accumulated Depreciation	48,585		48,585
Intangible Assets, at cost,			
net of Amortization Expense	613,261		613,261
Total Capital Assets	661,846		661,846
Total Assets	5,154,412,016	2,838,311	5,157,250,327
Liabilities			
Securities Lending Liability	207,292,003	2,056	207,294,059
Accounts Payable	1,028,565	13,531	1,042,096
Unearned Revenue	106,676		106,676
Due to Other Funds	376,005		376,005
Due to Primary Government	2,069,366		2,069,366
Compensated Absences	279,298	14,813	294,111
OPEB Implicit Rate Subsidy LT	353,397	39,451	392,848
Total Liabilities	211,505,310	69,851	211,575,161
Net Position Restricted for Pension Benefits	**$ 4,942,906,706**	**$ 2,768,460**	**$ 4,945,675,166**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Changes in Fiduciary Net Position (PERS-DBRP and PERS-DBEd)

for the Fiscal Year Ended June 30, 2014

	PERS-DBRP	PERS-DBEd	TOTAL
Additions			
Contributions			
Employer	$ 95,737,273	$ 447,715	$ 96,184,988
Plan Member	92,041,676		92,041,676
Membership Fees	19		19
Interest Reserve Buyback	118,372		118,372
Retirement Incentive Program	61,276		61,276
Miscellaneous Revenue	33,675,313		33,675,313
State Contributions	886,408		886,408
Total Contributions	222,520,337	447,715	222,968,052
Investment Income			
Net Appreciation (Depreciation) in Fair Value of Investments	553,236,306		553,236,306
Interest	192,320,785	3,890	192,324,675
Dividends	12,926,748		12,926,748
Investment Expense	(26,863,258)		(26,863,258)
Net Investment Income	731,620,581	3,890	731,624,471
Securities Lending Income			
Securities Lending Income	1,016,583	5	1,016,588
Securities Lending Rebate and Fees	(158,504)		(158,504)
Net Securities Lending Income	858,079	5	858,084
Total Net Investment Income	732,478,660	3,895	732,482,555
Total Additions	954,998,997	451,610	955,450,607
Deductions			
Benefits	296,183,076		296,183,076
Refunds/Distributions	10,069,997		10,069,997
Refunds to Other Plans	286,922		286,922
Transfers to DCRP	1,027,622		1,027,622
Transfers to ORP	173,691		173,691
OPEB Expenses	69,091	7,803	76,894
Administrative Expenses	3,422,413	281,636	3,704,049
Total Deductions	311,232,812	289,439	311,522,251
Net Increase (Decrease)	643,766,185	162,171	643,928,356
Net Position Restricted for Pension Benefits			
Beginning of Year	**4,299,238,343**	**2,594,324**	**4,301,832,667**
Prior Period Adjusment	**(97,822)**	**11,965**	**(85,857)**
End of Year	**$ 4,942,906,706**	**$ 2,768,460**	**$ 4,945,675,166**

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Fiduciary Net Position (PERS-DCRP, PERS-DCEd and PERS-DC Disability)

as of June 30, 2014

	PERS-DCRP	PERS-DCEd	PERS-DC DISABILITY*	TOTAL
Assets				
Cash and Short-term Investments	$1,201,037	$183,342		$1,384,379
Securities Lending Collateral	770	134		904
Receivables				
Interest	103	17		120
Accounts Receivables	17,821			17,821
Due from Other Funds	353,935	1,169		355,104
Total Receivables	371,859	1,186		373,045
Investments, at fair value				
Defined Contributions Fixed Investments	10,014,868			10,014,868
Defined Contributions Variable Investments	117,713,137			117,713,137
Structured Investment Vehicles (SIV)	11,380	1,985		13,365
Total Investments	127,739,385	1,985		127,741,370
Property and Equipment, at cost,				
net of Accumulated Depreciation (Note A2)	6,599			6,599
Intangible Assets, at cost,				
net of Amortization Expense (Note A2)	146,513			146,513
Total Assets	129,466,163	186,647		129,652,810
Liabilities				
Securities Lending Liability	770	134		904
Accounts Payable	152,317	2,339		154,656
Compensated Absences	35,745	2,729		38,474
OPEB Implicit Rate Subisidy LT	40,422	4,019		44,441
Total Liabilities	229,254	9,221		238,475
Net Position Restricted for Pension Benefits	**$129,236,909**	**$177,426**		**$129,414,335**

*Beginning this fiscal year 2014, the PERS-DC Disability Trust Fund is being presented in the Fiduciary Net Position and Statement of Changes in Fiduciary Net Position as a defined benefit OPEB plan, *PERS-DCRP Disability OPEB*. In prior years, the PERS-DC Disability was recorded as a separate fund of the PERS-DCRP. This is a correction in reporting in previously issued financial statements.

Public Employees' Retirement Board

A Component Unit of the State of Montana

Detail of Changes in Fiduciary Net Position (PERS-DCRP, PERS-DCEd and PERS-DC Disability)

for the Fiscal Year Ended June 30, 2014

	PERS-DCRP	PERS-DCEd	PERS-DC DISABILITY*	TOTAL
Additions				
Contributions				
Employer	$ 4,360,332	$ 49,449		$ 4,409,781
Plan Member	8,534,159			8,534,159
Miscellaneous Revenue	40,268			40,268
Forfeiture of Nonvested Member	251,907			251,907
Total Contributions	13,186,666	49,449		13,236,115
Investment Income				
Net Appreciation (Depreciation)				
in Fair Value of Investments	15,238,624			15,238,624
Interest	3,225,079	263		3,225,342
Investment Expense	(97,085)			(97,085)
Net Investment Income	18,366,618	263		18,366,881
Securities Lending Income				
Securities Lending Income	2			2
Securities Lending Rebate and Fees				
Net Securities Lending Income	2			2
Total Net Investment Income	18,366,620	263		18,366,883
Total Additions	31,553,286	49,712		31,602,998
Deductions				
Benefits	4,737,591			4,737,591
Distributions				
OPEB Expensee	8,317	1,263		9,580
Administrative Expenses	499,429	49,127		548,556
Miscellaneous Expenses	173,791			173,791
Total Deductions	5,419,128	50,390		5,469,518
Net Increase (Decrease)	26,134,158	(678)		26,133,480
Net Position Restricted for Pension Benefits				
Beginning of Year	**103,122,288**	**176,166**	**2,184,488**	**105,482,942**
Prior Period Adjustment	(19,536)	1,937	(2,184,488)	**(2,202,087)**
End of Year	**$ 129,236,910**	**$ 177,425**		**$ 129,414,335**

*Beginning this fiscal year 2014, the PERS-DC Disability Trust Fund is being presented in the Fiduciary Net Position and Statement of Changes in Fiduciary Net Position as a defined benefit OPEB plan, *PERS-DCRP Disability OPEB*. In prior years, the PERS-DC Disability was recorded as a separate fund of the PERS-DCRP. This is a correction in reporting in previously issued financial statements.

Public Employees' Retirement Board

Board Response

MONTANA PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION

STEVE BULLOCK
GOVERNOR

DORE SCHWINDEN
EXECUTIVE DIRECTOR

STATE OF MONTANA

MPERA

HELENA (406) 444-3154
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PO BOX 200131
HELENA MT 59620-0131
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March 2, 2015

RECEIVED
MAR 09 2015
LEGISLATIVE AUDIT DIV.

Tori Hunthausen, CPA, Legislative Auditor
Legislative Audit Division
State Capitol, Room 160
Helena, MT 59650

Dear Ms. Hunthausen:

MPERA has reviewed the financial audit report for fiscal year 2014. We understand there are no recommendations. We are pleased with the findings of the report and will work hard to continue to provide the highest quality service possible to our members.

In regard to the emphasis of matter paragraph on the classification of the coal severance tax and the coal severance tax interest earnings, we value your review of this matter and will consider the guidance that was provided in future reporting.

We appreciate the professionalism demonstrated by the audit staff to complete this financial compliance audit and we would like to offer our thanks to you for the courtesy and consideration extended to MPERA during the audit. Once again, we welcome the opportunity to work with your staff.

Thank you for your assistance.

Sincerely,

Dore Schwinden
Executive Director